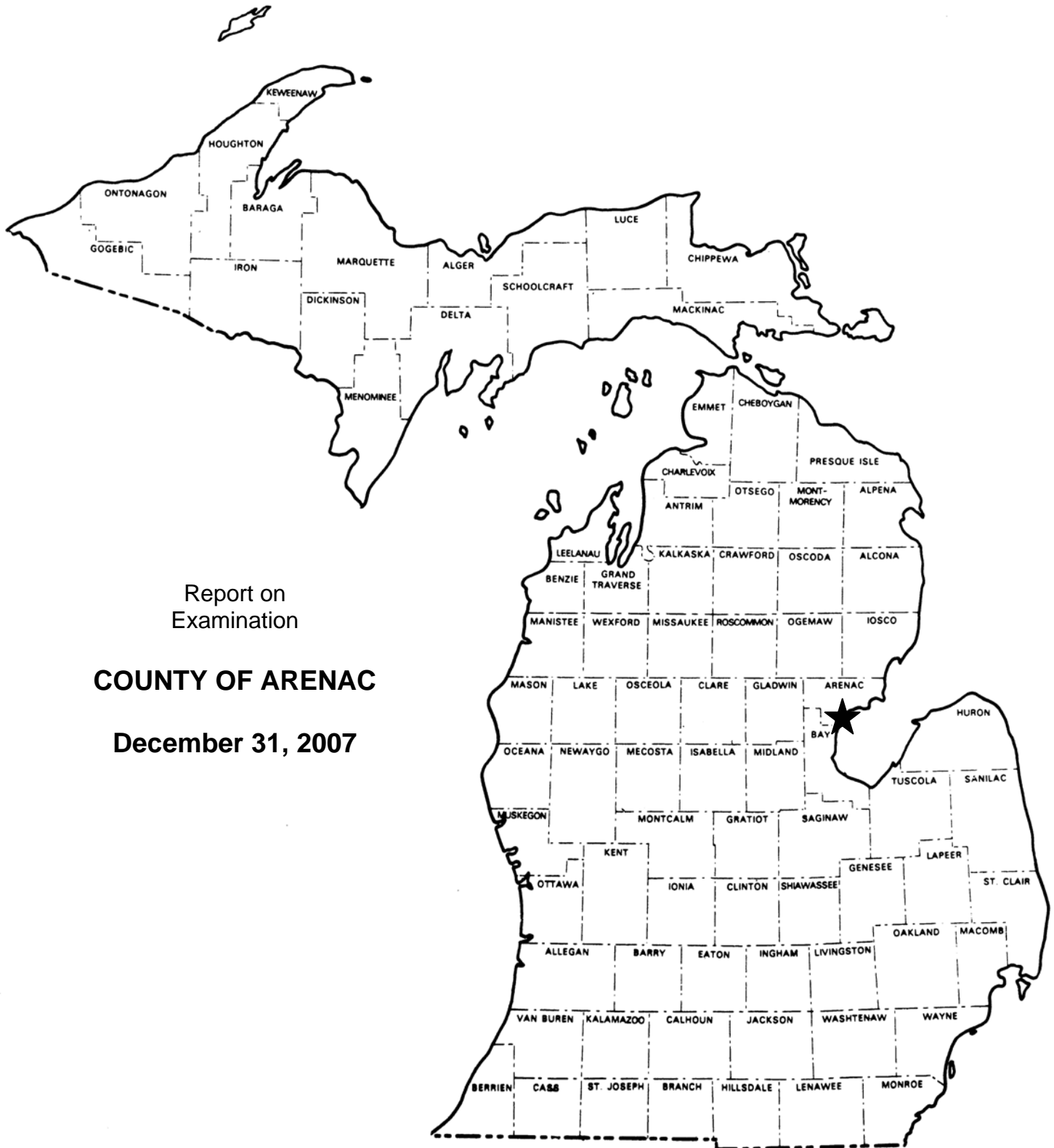


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination
COUNTY OF ARENAC
December 31, 2007

COUNTY OF ARENAC
BOARD OF COMMISSIONERS

Raymond Daniels
Chairperson

Jane Danjin
Joseph Sanciminos

Ronald Branda
Jan Stressman

COURT JUDGES

William Miles
Circuit Judge

Ronald M. Bergeron
Circuit Judge

Jack W. Scully
Probate Judge

Allen C. Yenior
District Judge

OTHER ELECTED OFFICIALS

Dennis Stawowy
Treasurer

Ricky R. Rockwell
Clerk

Rosella Smith
Register of Deeds

Donald Prueter
Drain Commissioner

Ronald L. Bouldin
Sheriff

Curtis G. Broughton
Prosecuting Attorney

COUNTY POPULATION--2000
17,269

STATE EQUALIZED VALUATION--2007
\$765,876,033



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 7, 2008

Arenac County Board of Commissioners
County of Arenac
120 North Grove Street
Standish, Michigan 48658

RE: Unqualified Opinions on Basic Financial Statements Accompanied by Required
Supplementary Information and Supplementary Information

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arenac County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise Arenac County's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of Arenac County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Arenac County Road Commission which represents 77 percent, 83 percent and 98 percent, respectively of the assets, net assets and revenues of the component unit funds. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion, insofar as it relates to the amounts included for Arenac County Road Commission.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arenac

County, as of December 31, 2007, and the respective changes in financial position and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2008 on our consideration of the Arenac County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 9 and the budgetary comparison information in Exhibits K, L, M, and N are not part of the basic financial statements, but are supplementary information required by the accounting principals generally accepted in the United States of America. We and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise of Arenac County's basic financial statements. The accompanying supplementary and related information presented as combining nonmajor fund financial statements (Exhibits N through S), general fund detail schedule of revenues and expenditures (Exhibits T through U) and combining component unit financial statements (Exhibits V through Y), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, general fund detail schedule of revenues and expenditures, and combining component unit financial statements have been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

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COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County, as a whole, and present a longer-term view of the County's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

The County's net assets for the governmental funds increased \$12,663 from a year ago for the governmental activities. The County's net assets for the business-type activities increased \$107,899 from a year ago. In a condensed format, the tables below show a comparison of the net assets as of the current year to the prior year.

	Governmental Activities 2006	Governmental Activities 2007	Difference	Percent
Current and Other Assets	\$ 5,789,129	\$ 5,832,210	\$ 43,081	1%
Noncurrent Assets	47,000	47,000	-	0%
Capital Assets	3,896,794	3,832,211	(64,583)	-2%
Total Assets	9,732,923	9,711,421	(21,502)	0%
Long-Term Liabilities Outstanding	687,885	617,743	(70,142)	-10%
Other Liabilities	1,804,667	1,840,644	35,977	2%
Total Liabilities	2,492,552	2,458,387	(34,165)	-1%
Net Assets				
Invested in Capital Assets				
Net of Related Debt	3,376,542	3,349,482	(27,060)	-1%
Restricted	2,217,876	3,556,369	1,338,493	60%
Unrestricted	1,645,953	347,183	(1,298,770)	-79%
Total Net Assets	\$ 7,240,371	\$ 7,253,034	\$ 12,663	0%

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the County's net assets in the amount of \$3,349,482 reflects its investments in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$3,556,369, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$347,183 represents "*unrestricted net assets*" that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current calendar year, the County is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted and unrestricted) of net assets, both for the government, as a whole, as well as for its separate governmental and business-type activities as explained above.

	Business-Type Activities <u>2006</u>	Business-Type Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Other Assets	<u>\$ 2,490,517</u>	<u>\$2,600,625</u>	<u>\$ 110,108</u>	<u>4%</u>
Total Assets	<u>2,490,517</u>	<u>2,600,625</u>	<u>110,108</u>	<u>4%</u>
Other Liabilities	<u>272</u>	<u>2,481</u>	<u>2,209</u>	<u>812%</u>
Total Liabilities	<u>272</u>	<u>2,481</u>	<u>2,209</u>	<u>812%</u>
Net Assets				
Unrestricted	<u>2,490,245</u>	<u>2,598,144</u>	<u>107,899</u>	<u>4%</u>
Total Net Assets	<u><u>\$ 2,490,245</u></u>	<u><u>\$2,598,144</u></u>	<u><u>\$ 107,899</u></u>	<u><u>4%</u></u>

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets for the years ended December 31, 2006 and December 31, 2007:

	Governmental Activities <u>2006</u>	Governmental Activities <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 1,325,593	\$ 1,190,875	\$ (134,718)	-10%
Operating Grants and Contributions	1,401,590	1,340,496	(61,094)	-4%
Capital Grants and Contributions	41,450	25,000	(16,450)	-40%
General Revenues				
Property Taxes	4,727,282	4,224,159	(503,123)	-11%
Unrestricted Investment Earnings	56,772	96,927	40,155	71%
Rentals	5,000	6,500	1,500	30%
Other Revenues	26,272	21,978	(4,294)	-16%
Total Revenues	<u>7,583,959</u>	<u>6,905,935</u>	<u>(678,024)</u>	<u>-9%</u>
Program Expenses				
General Government	2,324,438	2,507,388	182,950	8%
Public Safety	2,107,209	2,016,034	(91,175)	-4%
Public Works	19,310	22,416	3,106	16%
Health and Welfare	1,335,749	1,340,213	4,464	0%
Community and Economic Development	296,784	221,369	(75,415)	-25%
Recreation and Culture	115,438	101,158	(14,280)	-12%
Other	948,441	934,260	(14,181)	-1%
Interest on Long-Term Debt	26,605	23,345	(3,260)	-12%
Total Expenses	<u>7,173,974</u>	<u>7,166,183</u>	<u>(7,791)</u>	<u>0%</u>
Increase (Decrease) in Net Assets Before Transfers	409,985	(260,248)	(670,233)	-163%
Transfers	<u>393,124</u>	<u>272,911</u>	<u>(120,213)</u>	<u>-31%</u>
Change in Net Assets	<u>803,109</u>	<u>12,663</u>	<u>(790,446)</u>	<u>-98%</u>
Ending Net Assets	<u>\$ 7,240,371</u>	<u>\$ 7,253,034</u>	<u>\$ (910,659)</u>	<u>-13%</u>

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Public Act 357 of 2004 provided a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and, additionally, required the establishment of a restricted fund to be known as the Revenue Sharing Reserve Fund. Beginning in 2004, the property tax revenue of the governmental activities increased due to the creation of the Revenue Sharing Reserve Fund in 2004, which shifted the General Fund County Property Tax Collections from December to July over a three year period. During that time period, the County will levy 33% more each calendar year and set aside that amount into the Revenue Sharing Reserve Fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment.

The County's net assets decreased during 2007 by \$910,659. This was due largely to a decrease of property tax recognition.

	<u>Business-Type Activities</u> <u>2006</u>	<u>Business-Type Activities</u> <u>2007</u>	<u>Difference</u>	<u>Percent</u>
Program Revenues				
Charges for Services	\$ 335,552	\$ 342,540	\$ 6,988	2%
General Revenues				
Unrestricted Investment Earnings	<u>57,382</u>	<u>82,987</u>	<u>25,605</u>	<u>45%</u>
Total Revenues	<u>392,934</u>	<u>425,527</u>	<u>32,593</u>	<u>8%</u>
Program Expenses				
Delinquent Tax Fund--Other	5,123	3,376	(1,747)	-34%
Nonmajor Enterprise	<u>44,549</u>	<u>41,341</u>	<u>(3,208)</u>	<u>-7%</u>
Total Expenses	<u>49,672</u>	<u>44,717</u>	<u>(4,955)</u>	<u>-10%</u>
Increase in Net Assets Before Transfers	343,262	380,810	37,548	11%
Transfers	<u>(393,124)</u>	<u>(272,911)</u>	<u>120,213</u>	<u>-31%</u>
Increase (Decrease) in Net Assets	<u>(49,862)</u>	<u>107,899</u>	<u>157,761</u>	<u>-316%</u>
Ending Net Assets	<u><u>\$2,490,245</u></u>	<u><u>\$2,598,144</u></u>	<u><u>\$107,899</u></u>	<u><u>4%</u></u>

Alternate sources of revenue such as charges for services and investment earnings accounted for more than \$100,000 in increased revenue. This was mostly due to the property tax foreclosure program and a decrease in transfers. There was an increase in net assets of \$107,899.

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

As the County completed calendar year 2007, its governmental funds reported combined fund balances of \$2,454,826, a decrease of \$245,222. The net changes are summarized below:

	Governmental Activities 2006	Governmental Activities 2007	Amount Difference 2007	Percentage Difference 2007
Revenues				
Taxes	\$4,564,823	\$3,943,045	\$ (621,778)	-14%
Licenses and Permits	117,861	80,355	(37,506)	-32%
Federal Grants	299,565	323,813	24,248	8%
State Grants	818,060	742,528	(75,532)	-9%
Charges for Services	99,931	945,753	845,822	846%
Contributions From Local Units	945,697	49,123	(896,574)	-95%
Fines and Forfeits	31,990	17,243	(14,747)	-46%
Interest and Rentals	62,106	103,427	41,321	67%
Other Revenue	408,606	410,591	1,985	0%
Total Revenues	7,348,639	6,615,878	(732,761)	-10%
Expenses				
General Government	2,283,915	2,452,823	(168,908)	-7%
Public Safety	2,018,097	1,917,916	100,181	5%
Public Works	19,310	22,416	(3,106)	-16%
Health and Welfare	1,335,749	1,340,213	(4,464)	0%
Community and Economic Development	296,784	221,369	75,415	25%
Recreation and Cultural	78,941	64,791	14,150	18%
Other	948,441	934,260	14,181	1%
Capital Outlay	273,537	119,356	154,181	56%
Debt Service			-	
Principal	91,138	37,522	53,616	59%
Interest and Fiscal Fees	26,605	23,345	3,260	12%
Total Expenditures	7,372,517	7,134,011	238,506	3%
Excess of Revenues Over (Under) Expenditures	(23,878)	(518,133)	(494,255)	2070%
Other Financing Sources (Uses)				
Interfund Transfers In (Out)				
Primary Government	937,661	999,758	62,097	7%
Primary Government	(544,537)	(726,847)	(182,310)	33%
Total Other Financing Sources (Uses)	393,124	272,911	(120,213)	-31%
Beginning Fund Balance	2,330,802	2,700,048	369,246	16%
Ending Fund Balance	\$2,700,048	\$2,454,826	\$ (245,222)	-9%

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's Funds

The financial statements for the County's major funds are detailed in Exhibits C and D, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millage. The County's major funds for 2007 include the General Fund, Ambulance, 911 Service Fund, and the Revenue Sharing Reserve Fund.

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement, or board policy, all County revenues and expenditures are recorded in the General Fund.

The most significant services paid by the County's governmental funds are general government and public safety, which incurred expenses of \$2,245,317 and \$901,090, respectively, during 2007.

The County's total governmental revenues decreased by approximately 9%. The decrease was due mostly to a loss in Federal and State grants during 2007 as well as a decrease of property taxes received. There was over a \$60,000 decrease in State and Federal grants.

Expenses remained relatively consistent from the prior year.

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

	Business-Type Activities	Business-Type Activities	Amount Difference	Percentage Difference
	2006	2007	2007	2007
Operating Revenues				
Interest and Penalties on Taxes	\$ 215,557	\$ 203,072	\$ (12,485)	-6%
Charges for Services	119,995	139,468	19,473	16%
Total Operating Revenues	335,552	342,540	6,988	2%
Operating Expenses				
Title Search Fees	30,505	25,900	4,605	15%
Supplies and Materials	11,743	8,522	3,221	27%
Other	7,424	10,295	(2,871)	-39%
Total Operating Expenses	49,672	44,717	4,955	10%
Net Income (Loss) From Operations	285,880	297,823	11,943	4%
Nonoperating Revenue (Expenses)				
Interest Income	57,382	82,987	25,605	45%
Total Nonoperating Revenues (Expenses)	57,382	82,987	25,605	45%
Net Income (Loss) Before Operating Transfers	343,262	380,810	37,548	11%
Transfers In--Primary Government	176,600	33,605	(142,995)	-81%
Transfers (Out)--Primary Government	(569,724)	(306,516)	263,208	-46%
Net Income (Loss)	(49,862)	107,899	157,761	-316%
Beginning Net Assets	2,540,107	2,490,245	(49,862)	-2%
Ending Net Assets	\$ 2,490,245	\$ 2,598,144	\$ 107,899	4%

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The County's business-type activities consist of the Jail Commissary Fund operating on sales of amenities to inmates, the Tax Foreclosure Fund which operates on Charges for Services revenue, and the Delinquent Tax Revolving Fund which represents collection of delinquent taxes from various years. The County's business-type activities net assets increased by 4% or \$107,899 during 2007. Even though there were increases in operating revenue of close to \$7,000, \$306,516 had to be transferred out to cover shortfalls in other funds. Michigan's economy and the State's failing budget are putting pressure on the counties to be more self-funded.

General Fund Budgetary Highlights

Over the course of the year, the County Board amended the budget to take into account events during the year. The County's General Fund revenue budget was decreased by \$46,325 (1% above the original budget) during calendar year 2007. Actual General Fund revenue and other financing sources totaled \$4,187,242, which was \$17,675 less than the final amended budget. The largest variance was a decrease in property taxes.

The County's expenditure budget was decreased by \$33,441 (less than 1% over the original budget) during calendar year 2007. Actual General Fund expenditures and other financing sources totaled \$4,480,112, which was \$40,678 above the final amended budget. The largest variance was to general government.

Capital Asset and Debt Administration

At the end of 2007, the County had \$3,832,211 invested in a broad range of capital assets, including land, land improvements, buildings and building improvements, office equipment, and police vehicles and equipment. Major additions to the capital assets this year included a new vehicle and fire alarm for the Sheriff's Department, office equipment, and a new vehicle for Road Patrol. These additions totaled \$119,356.

Debt is classified as long-term if it matures in a period greater than one year. At the end of the current calendar year, the County had total debt outstanding of \$655,472 which includes vested employee benefits of \$172,743.

COUNTY OF ARENAC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The County has considered the following factors in preparing the 2008 calendar year budget:

The Revenue Sharing Reserve Fund transfers are complete but the County believes this will only be a stop gap repair for its budget. In approximately 3 years when this fund runs out there will need to be a replacement funding mechanism from the State. There was a decrease in grant funding during the last year and the County believes this trend will continue. As the State's budget shrinks more and more services are being requested of County government. The increased prisoner population in our jail due to the revision of sentencing guidelines has caused an explosion of cost in both the courts and the jail. Our property tax caps in the form of both proposal "A" and the Headlee Amendment are working together to hold the increases in the operating revenue of the county down. Proposal "A" allowed for increased tax revenue from a sale (uncapping) of property, but what actually happened is the Headlee Amendment rolls back the millage rate, which ends up off setting any revenue increase the County thought it would get.

If the request for services continues to rise faster than the increase in revenue, the County Board will continue to have to make hard decisions with regard to the budget, based on getting the most bang for their buck. Public Safety will continue to be a major concern for the county, but will be forced to cut services in order to operate mandated offices. Until the State's economy improves there has to be a reduction in services to off set revenue reductions in Arenac County.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Arenac County Board of Commissioners at 120 North Grove Street, Standish, Michigan 48658.

Separately issued component unit financial statements for the Arenac County Road Commission can be obtained from the administrative office at Arenac County Road Commission, 116 Bridge Street, Omer, Michigan 48749.

ARENAC COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A

	PRIMARY GOVERNMENT			
	Governmental Activities	Business-Type Activities	Total	Component Units
<u>ASSETS</u>				
Current Assets				
Cash and Cash Equivalents	\$ 1,746,134	\$ 909,088	\$ 2,655,222	\$ 429,309
Investments	617,288	884,703	1,501,991	534,476
Receivables (Net)				
Taxes--Current Levy	1,570,811		1,570,811	
Taxes--Summer Levy	443,573	781,070	1,224,643	
Delinquent Personal Taxes	2,058		2,058	
Accounts	55,251		55,251	32,128
Interest				920
Notes	1,177,896		1,177,896	
Due From Local Units of Government	3,877	23,057	26,934	17,338
Due From Other Counties	68,749		68,749	
Due From State	104,172		104,172	471,484
Due From Federal	40,108		40,108	4,980
Internal Balances	2,293	(2,293)	-	
Due From Other Funds--Component Units		5,000	5,000	
Inventories			-	367,610
Prepaid Expenses			-	70,621
Total Current Assets	5,832,210	2,600,625	8,432,835	1,928,866
Noncurrent Assets				
Special Assessments Receivables				
Due Within One Year			-	141,567
Due in More Than One Year			-	558,394
Due From Local Units of Governments				
Due Within One Year			-	20,000
Due in More Than One Year			-	282,000
Capital Assets--Net of Accumulated Depreciation	3,832,211		3,832,211	7,869,386
Long-Term Advances to				
Other Funds--Component Units	47,000		47,000	
Total Assets	9,711,421	2,600,625	12,312,046	10,800,213
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable	120,788	2,481	123,269	154,950
Judgments Payable	35,695		35,695	
Due to Other Funds--Component Units			-	5,000
Due to State	10,260		10,260	170,982
Accrued Liabilities	65,361		65,361	48,834
Other Accrued Liabilities			-	90,755
Noncurrent Liabilities				
Long-Term Advances From				
Other Funds--Primary Government			-	47,000
Deferred Revenue	1,570,811		1,570,811	
Bonds Payable--Due Within One Year	35,000		35,000	45,209
Bonds Payable--Due in More Than One year	445,000		445,000	644,098
Installment Loans Payable--Due Within One Year	2,729		2,729	
Notes Payable--Due Within One Year			-	32,792
Notes Payable--Due in More Than One Year			-	172,010
Vested Employee Benefits Payable--Due in More Than One Year	172,743		172,743	
Total Liabilities	2,458,387	2,481	2,460,868	1,411,630

ARENAC COUNTY
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT A
(CONTINUED)

	PRIMARY GOVERNMENT			Component Units
	Governmental Activities	Business-Type Activities	Total	
<u>NET ASSETS</u>				
Investment in Capital Assets--Net of Related Debt	3,349,482		3,349,482	7,332,079
Restricted for				
Ambulance	305,501		305,501	
911 Services	556,550		556,550	
Revenue Sharing Reserve	1,136,379		1,136,379	
Non-Major Special Revenue Programs	1,557,939		1,557,939	
County Roads			-	1,034,851
Economic Development			-	54,449
Brownfield Redevelopment Authority			-	3,614
Drain Commission			-	963,590
Unrestricted	347,183	2,598,144	2,945,327	
Total Net Assets	<u>\$ 7,253,034</u>	<u>\$ 2,598,144</u>	<u>\$ 9,851,178</u>	<u>\$ 9,388,583</u>

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT B

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 2,507,388	\$ 720,366	\$ 820,028		\$ (966,994)		\$ (966,994)	
Public Safety	2,016,034	290,427	259,171	\$ 25,000	(1,441,436)		(1,441,436)	
Public Works	22,416				(22,416)		(22,416)	
Health and Welfare	1,340,213	26,625	153,452		(1,160,136)		(1,160,136)	
Community and Economic Development	221,369	108,045	107,845		(5,479)		(5,479)	
Recreation and Culture	101,158	45,412			(55,746)		(55,746)	
Other	934,260				(934,260)		(934,260)	
Interest on Long-Term Debt	23,345				(23,345)		(23,345)	
Total Governmental Activities	7,166,183	1,190,875	1,340,496	25,000	(4,609,812)	\$ -	(4,609,812)	
Business-Type Activities								
Delinquent Tax Revolving Fund	3,376	204,293				200,917	200,917	
Nonmajor Enterprise Funds	41,341	138,247				96,906	96,906	
Total Business-Type Activities	44,717	342,540	-	-	-	297,823	297,823	
Total Primary Government	\$ 7,210,900	\$ 1,533,415	\$ 1,340,496	\$ 25,000	\$ (4,609,812)	\$ 297,823	\$ (4,311,989)	
Component Units								
Road Commission	\$ 3,408,784	\$ 1,215,698	\$ 2,422,890	\$ 1,434,565				\$ 1,664,369
Economic Development Corporation	3,966		26,282					22,316
Brownfield Redevelopment Authority	49,533		45,409					(4,124)
Drain Commission								
Public Works	175,463	566,860	18,660					410,057
Interest on Long-Term Debt	25,302							(25,302)
Total Component Units	\$ 3,462,283	\$ 1,215,698	\$ 2,513,241	\$ 1,434,565	\$ -	\$ -	\$ -	\$ 2,067,316
General Revenues								
Property Taxes					\$ 4,224,159		\$ 4,224,159	\$ 20,027
Interest Earnings							-	
Unrestricted Investment Earnings					96,927	\$ 82,987	179,914	17,311
Rentals					6,500		6,500	
Other Revenues					21,978		21,978	
Transfers					272,911	(272,911)	-	
Total General Revenues, Special Item and Transfers					4,622,475	(189,924)	4,432,551	37,338
Change in Net Assets					12,663	107,899	120,562	2,104,654
Net Assets--Beginning					7,240,371	2,490,245	9,730,616	7,283,929
Net Assets--Ending					\$ 7,253,034	\$ 2,598,144	\$ 9,851,178	\$ 9,388,583

The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007**

EXHIBIT C

	General Fund	Ambulance	911 Service Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 340,682		\$ 220,818	\$ 812,307	\$ 372,327	\$ 1,746,134
Investments		\$ 305,305	311,983			617,288
Receivables						
Taxes--Current Levy		264,982	406,240		899,589	1,570,811
Taxes--Summer Levy	443,573					443,573
Delinquent Personal	1,103	196	239		520	2,058
Accounts	26,759		8,492		20,000	55,251
Notes					1,177,896	1,177,896
Due From Local Units of Government	3,877					3,877
Due From Other Counties	68,749					68,749
Due From State	64,820		25,332		14,020	104,172
Due From Federal					40,108	40,108
Due From Other Funds--Primary Government	2,293			324,072		326,365
Advances to Other Funds--Primary Government	3,000					3,000
Advances to Other Funds--Component Units	47,000					47,000
Total Assets	\$ 1,001,856	\$ 570,483	\$ 973,104	\$ 1,136,379	\$ 2,524,460	\$ 6,206,282
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts Payable	\$ 82,976		\$ 220		\$ 37,592	\$ 120,788
Judgments Payable	35,695					35,695
Due to Other Funds--Primary Government	324,072					324,072
Due to State					10,260	10,260
Accrued Liabilities	40,510		10,094		14,757	65,361
Long-Term Advances From Other Funds--Primary Government					3,000	3,000
Deferred Revenue--Taxes	443,573	\$ 264,982	406,240		899,589	2,014,384
Deferred Revenue--Other					1,177,896	1,177,896
Total Liabilities	926,826	264,982	416,554	\$ -	2,143,094	3,751,456
Fund Equity						
Fund Balances						
Reserved for						
Ambulance		305,501				305,501
911 Services			556,550			556,550
Non-Major Special Revenue Programs					380,043	380,043
Long-Term Advances to Other Funds	50,000					50,000
Designated for						
Capital Projects					1,323	1,323
Unreserved--Undesignated	25,030			1,136,379		1,161,409
Total Fund Equity	75,030	305,501	556,550	1,136,379	381,366	2,454,826
Total Liabilities and Fund Equity	\$ 1,001,856	\$ 570,483	\$ 973,104	\$ 1,136,379	\$ 2,524,460	\$ 6,206,282

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
December 31, 2007

EXHIBIT C-1

Fund Balances--Total Governmental Funds	\$ 2,454,826
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Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds.

Add--Capital Assets	5,951,856
Deduct--Accumulated Depreciation	<u>(2,119,645)</u>

Net Capital Asset Addition	<u>3,832,211</u>
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Revenues that do not provide current financial resources are not reported as revenue in the governmental funds.	1,621,469
--	-----------

Certain liabilities, such as compensated absences are not due and
payable in the current period. Therefore, they are not reported
in the funds' statement.

Deduct--Long-Term Debt	(482,729)
Deduct--Compensated Absences and Other Long-Term Liabilities	<u>(172,743)</u>

Net Assets of Governmental Activities	<u><u>\$ 7,253,034</u></u>
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The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT D

	General Fund	Ambulance	911 Service Fund	Revenue Sharing Reserve Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Taxes and Penalties	\$ 2,385,791	\$295,979	\$ 390,025		\$ 871,250	\$ 3,943,045
Licenses and Permits	7,483				72,872	80,355
Federal Grants	67,097				256,716	323,813
State Grants	526,730		111,732		104,066	742,528
Contributions From Local Units	49,123					49,123
Charges for Services	765,568		75,539		104,646	945,753
Fines and Forfeitures	12,872				4,371	17,243
Interest and Rentals	98,648		4,779		-	103,427
Other Revenue	273,930				136,661	410,591
Total Revenues	4,187,242	295,979	582,075	\$ -	1,550,582	6,615,878
Expenditures						
Current						
General Government	2,245,317				207,506	2,452,823
Public Safety	901,090		463,403		553,423	1,917,916
Public Works	22,416					22,416
Health and Welfare	317,988	303,383			718,842	1,340,213
Community and Economic Development	7,880				213,489	221,369
Recreation and Cultural	10,485				54,306	64,791
Other	934,260					934,260
Capital Outlay	40,676				78,680	119,356
Debt Service						
Principal					37,522	37,522
Interest and Fiscal Fees					23,345	23,345
Total Expenditures	4,480,112	303,383	463,403	-	1,887,113	7,134,011
Excess of Revenues Over (Under) Expenditures	(292,870)	(7,404)	118,672	-	(336,531)	(518,133)
Other Financing Sources (Uses)						
Interfund Transfers In--Primary Government	533,238				466,520	999,758
Interfund Transfers (Out)--Primary Government	(366,605)		(14,479)	(312,158)	(33,605)	(726,847)
Total Other Financing Sources (Uses)	166,633	-	(14,479)	(312,158)	432,915	272,911
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(126,237)	(7,404)	104,193	(312,158)	96,384	(245,222)
Fund Balance--January 1, 2007	201,267	312,905	452,357	1,448,537	284,982	2,700,048
Fund Balance--December 31, 2007	\$ 75,030	\$305,501	\$ 556,550	\$ 1,136,379	\$ 381,366	\$ 2,454,826

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

EXHIBIT D-1

Net Change in Fund Balances--Total Governmental Funds	\$ (245,222)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	290,055
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add--Capital Outlay	119,356
Deduct--Depreciation Expense	(183,939)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add--Principal Payments on Long-Term Liabilities	37,522
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Some expenses reported in the Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in the funds.	(5,110)
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Change in Net Assets of Governmental Activities	<u><u>\$ 12,662</u></u>
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The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2007**

EXHIBIT E

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Delinquent Tax Revolving	Non-Major Enterprise Funds	Total Enterprise Funds
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 717,627	\$ 191,461	\$ 909,088
Investments	884,703		884,703
Delinquent Taxes Receivable	781,070		781,070
Due From Other Governmental Units	17,711		17,711
Due From Other Funds--Component Unit	5,000		5,000
Advance to Other Governmental Units	5,346		5,346
Total Assets	2,411,457	191,461	2,602,918
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable		2481	2,481
Due to Other Funds--Primary Government	2,293		2,293
Total Current Liabilities	2,293	2,481	4,774
Total Noncurrent Liabilities	-	-	-
Total Liabilities	2,293	2,481	4,774
<u>NET ASSETS</u>			
Unrestricted	2,409,164	188,980	2,598,144
Total Net Assets	\$ 2,409,164	\$ 188,980	\$ 2,598,144

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT F

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Delinquent Tax Revolving	Non-Major Enterprise Funds	Total Enterprise Funds
Operating Revenues			
Interest on Delinquent Taxes	\$ 141,409		\$ 141,409
Property Tax Administration Fees	61,663		61,663
Charges for Services	1,221	\$ 138,247	139,468
Total Operating Revenues	204,293	138,247	342,540
Operating Expenses			
Title Search Fees		25,900	25,900
Supplies and Materials	3,376	5,146	8,522
Other		10,295	10,295
Total Operating Expenses	3,376	41,341	44,717
Operating Income (Loss)	200,917	96,906	297,823
Nonoperating Revenues (Expenses)			
Interest and Investment Revenue	82,987		82,987
Total Nonoperating Revenues (Expenses)	82,987	-	82,987
Income (Loss) Before Contributions and Transfers	283,904	96,906	380,810
Interfund Transfers			
Transfers In	33,605		33,605
Transfers (Out)	(306,516)	-	(306,516)
Change in Net Assets	10,993	96,906	107,899
Net Assets--Beginning of Year	2,398,171	92,074	2,490,245
Net Assets--End of Year	\$ 2,409,164	\$ 188,980	\$ 2,598,144

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT G

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Delinquent Tax Revolving	Non-Major Enterprise Funds	Total
Cash Flows From Operating Activities			
Interest on Delinquent Taxes	\$ 141,409		\$ 141,409
Property Tax Administration Fees	61,663		61,663
Charges for Services	1,221	\$138,247	139,468
Delinquent Taxes Collected	(146,109)		(146,109)
Goods and Services Purchased	(3,376)	(39,132)	(42,508)
Net Cash Provided by Operating Activities	54,808	99,115	153,923
Cash Flows From Noncapital Financing Activities			
(Increase) or Decrease in Due From Other Governmental Units	1,503		1,503
(Increase) or Decrease in Due From Other Funds	-		-
Transfers In/(Out)	(272,911)		(272,911)
Net Cash Flows From Noncapital Financing Activities	(271,408)	-	(271,408)
Cash Flows From Investing Activities			
Interest on Cash Equivalents	82,987		82,987
Purchase of Investments	(44,188)		(44,188)
Net Cash Provided by Investing Activities	38,799	-	38,799
Net Increase in Cash and Cash Equivalents	(177,801)	99,115	(78,686)
Cash and Cash Equivalents--January 1, 2007	895,426	92,346	987,772
Cash and Cash Equivalents--December 31, 2007	<u>\$ 717,625</u>	<u>\$ 191,461</u>	<u>\$ 909,086</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 200,917	\$ 96,906	\$ 297,823
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in Assets and Liabilities			
Decrease (Increase) in Delinquent Taxes Receivable	(146,109)		(146,109)
Increase (Decrease) in Accounts Payable		2,209	2,209
Net Cash Provided by Operating Activities	<u>\$ 54,808</u>	<u>\$ 99,115</u>	<u>\$ 153,923</u>

The Notes to Financial Statements are an integral part of this statement.

**ARENAC COUNTY
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2007**

EXHIBIT H

	<u>Agency Funds</u>
<u>ASSETS</u>	
Cash	<u>\$ 417,955</u>
Total Assets	<u><u>\$ 417,955</u></u>

LIABILITIES AND FUND BALANCE

Liabilities	
Due to State of Michigan	\$ 28,926
Undistributed Tax Collections	209,427
Undistributed Penal Fines	65,059
Other Liabilities	<u>114,543</u>
Total Liabilities	<u><u>\$ 417,955</u></u>

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
December 31, 2007

EXHIBIT I

	GOVERNMENTAL ACTIVITIES				
	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Total
<u>ASSETS</u>					
Current Assets					
Cash	\$ 44,393	\$ 54,449	\$ 1,621	\$ 328,846	\$ 429,309
Investments	534,476				534,476
Receivables					
Accounts	32,128				32,128
Interest	920				920
Due From Local Units of Government	17,338				17,338
Due From State	471,484				471,484
Due From Federal			4,980		4,980
Inventories	367,610				367,610
Prepaid Expenses	70,621				70,621
Total Current Assets	1,538,970	54,449	6,601	328,846	1,928,866
Noncurrent Assets					
Special Assessments Receivable					
Due Within One Year				141,567	141,567
Due in More Than One Year				558,394	558,394
Due From Local Units of Government					
Due Within One Year				20,000	20,000
Due in More Than One Year				282,000	282,000
Capital Assets (Net of Accumulated Depreciation)	6,798,661			1,070,725	7,869,386
Total Noncurrent Assets	6,798,661	-	-	2,072,686	8,871,347
Total Assets	8,337,631	54,449	6,601	2,401,532	10,800,213
<u>LIABILITIES</u>					
Current Liabilities					
Accounts Payable	138,746		2,987	13,217	154,950
Due to Other Funds--Primary Government				5,000	5,000
Due to State	170,982				170,982
Accrued Liabilities	48,834				48,834
Other Accrued Liabilities	90,755				90,755
Total Current Liabilities	449,317	-	2,987	18,217	470,521
Noncurrent Liabilities					
Long-Term Advances From					
Primary Government--General Fund				47,000	47,000
Bonds Payable					
Due Within One Year				45,209	45,209
Due in More Than One Year				644,098	644,098
Notes Payable					
Due Within One Year	2,792			30,000	32,792
Due in More Than One Year	52,010			120,000	172,010
Total Noncurrent Liabilities	54,802	-	-	886,307	941,109
Total Liabilities	504,119	-	2,987	904,524	1,411,630
<u>NET ASSETS</u>					
Invested in Capital Assets--Net of Related Debt	6,798,661			533,418	7,332,079
Restricted for					
County Roads	1,034,851				1,034,851
Economic Development		54,449			54,449
Brownfield Redevelopment Authority			3,614		3,614
Drain Commission					
Debt Service				20	20
Capital Projects				963,570	963,570
Total Net Assets	\$ 7,833,512	\$ 54,449	\$ 3,614	\$ 1,497,008	\$ 9,388,583

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
Year Ended December 31, 2007

EXHIBIT J

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Economic Development Corporation	Brownfield Redevelopment Authority	Drain Commission	Total
Governmental Activities									
Road Commission									
Public Works	\$ 3,408,784	\$ 1,215,698	\$ 2,422,890	\$ 1,434,565	\$ 1,664,369				\$ 1,664,369
Total Road Commission	3,408,784	1,215,698	2,422,890	1,434,565	1,664,369	\$ -	\$ -	\$ -	1,664,369
Economic Development Corporation									
Community and Economic Development	3,966	-	26,282			22,316			22,316
Total Economic Development Corporation	3,966	-	26,282	-	-	22,316		-	22,316
Brownfield Redevelopment Authority									
Community and Economic Development	49,533	-	45,409				(4,124)		(4,124)
Total Brownfield Redevelopment Authority	49,533	-	45,409	-	-	-	(4,124)	-	(4,124)
Drain Commission									
Public Works	175,463	566,860	18,660					410,057	410,057
Interest on Related Debt	25,302							(25,302)	(25,302)
Total Drain Commission	\$ 200,765	\$ 566,860	\$ 18,660	\$ -	-	-	-	384,755	384,755
General Revenues									
Property Taxes					13,184		6,843		20,027
Investment Earnings					17,311				17,311
Total General Revenues, Special Items and Transfers					30,495	-		-	37,338
Change in Net Assets					1,694,864	22,316		384,755	2,104,654
Net Assets--Beginning of Year					6,138,648	32,133	895	1,112,253	7,283,929
Net Assets--End of Year					\$ 7,833,512	\$ 54,449	\$ 3,614	\$ 1,497,008	\$ 9,388,583

The Notes to Financial Statements are an integral part of this statement.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Arenac County, Michigan, was organized in 1883 and covers an area of 366 square miles divided into 12 townships, 3 cities and 3 villages. The county is governed by an elected 5-member board of commissioners and provides services to its more than 17,269 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present Arenac County (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included. The component units, discussed below, are included in the county's financial reporting entity because of the significance of their operational or financial relationships with the county.

The component unit columns in the basic financial statements include the financial data of the Arenac County Road Commission, Economic Development Corporation, Brownfield Redevelopment Authority and Drain Commission. These financial statements are reported in separate columns to emphasize that they are legally separate from the county.

BLENDED COMPONENT UNITS

Building Authority

The Arenac County Building Authority is governed by a 5-member board appointed by the county board of commissioners. Although it is legally separate from the county, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's public buildings.

Arenac County Housing Commission

The Arenac County Housing Commission was created on March 17, 1975 in the State of Michigan, under the provisions of Public Act 18 of the Extra Session of 1933, as amended. A 5-member board appointed by the Arenac County Board of Commissioners administers the Housing Commission. Although it is legally separate from the county, the Housing Commission is reported as if it were part of the primary government because its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County of Arenac. The Arenac County Board of Commissioners approves all grants received by the Housing Commission.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

DISCRETELY PRESENTED COMPONENT UNITS

Road Commission

The Arenac County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt or levy property taxes without the county's approval.

Economic Development Corporation

The Arenac County Economic Development Corporation (EDC) was established pursuant to the provisions of Public Act 338 of 1974, as amended. The EDC is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its 11-member board of directors. The EDC may not issue debt without the county's approval and the EDC administers the County's Economic Development Revolving Loan Fund established by Federal grants to the county.

Brownfield Redevelopment Authority

The Arenac County Brownfield Redevelopment Authority (BRA) was established pursuant to the provisions of Public Act 381 of 1996, as amended. The BRA is included as part of the Arenac County entity for financial reporting purposes because the Arenac County Board of Commissioners appoints its 11-member board of directors. The BRA may not issue debt without the county's approval and the BRA administers the County's Brownfield Redevelopment Authority Fund established to facilitate the implementation of Brownfield plans relating to the identification and treatment of environmentally distressed (functionally obsolete and/or blighted) areas so as to promote revitalization within the municipal limits of Arenac County.

Drain Commission

The Arenac County Drain Commission was established pursuant to the Drain Code of 1956. The drain commissioner has the responsibility to administer the State Drain Code, which involves planning, developing, and maintaining surface water drainage systems within the county. The Arenac County Drain Commission may issue debt or levy a tax as authorized by the Drain Code without the approval of the county board of commissioners.

Complete audited and/or unaudited financial statements of the individual component units can be obtained from their respective administrative offices.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Administrative Offices

Arenac County Housing Commission
120 North Grove Street
Standish, Michigan 48658

Arenac County Road Commission
116 Bridge Street
Omer, Michigan 48649

Arenac County Economic Development Corporation
120 North Grove Street
Standish, Michigan 48658

Arenac County Drain Commission
120 North Grove Street
Standish, Michigan 48658

Arenac County Brownfield Redevelopment Authority
120 North Grove Street
Standish, Michigan 48658

Jointly Governed Organization--Central Michigan District Health Department

Arenac County, in conjunction with Arenac, Gladwin, Isabella, Osceola and Roscommon counties, has created the Central Michigan District Health Department under the authority of the Public Health Code. The District Health Board is composed of two members from each of the counties who are appointed by each participating county board of commissioners. All of the financial operations of the District Health Department are recorded in the records of Isabella County, as a discretely presented component unit. The funding formula approved by the member counties is based pro rata on each unit's population and State equalized valuation to the district's population and valuation.

Member counties' percentages of the net operating budget for 2007 were:

Clare	16.86%	Isabella	28.48%
Gladwin	14.38%	Osceola	12.46%
Arenac	10.54%	Roscommon	17.28%

Arenac County's appropriation to the District Health Department for the year ended December 31, 2007 was \$132,714, which included \$8,334 cigarette tax.

Jointly Governed Organization--Bay Arenac Community Mental Health Services Board

Arenac County, in conjunction with Bay County, has created the Bay Arenac Community Mental Health Services Board which is a community mental health organization defined in the Mental Health Code, MCL 330.1001, et seq., as amended. Community Mental Health Services Board is composed of 12 members apportioned between the member counties on the basis of population. The board appointments are approved by the respective county board of commissioners. All of the financial operations of the Mental Health Authority are recorded in the records of Bay County, as a discretely presented component unit. The funding of the Mental Health Authority operations is based pro rata on each unit's population to the district's total population.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Arenac County's 2007 appropriation to the Mental Health Board was \$104,812.

Related Organizations--Arenac County Council on Aging

Arenac County Council on Aging is a nonprofit corporation. The council is a legally separate organization established for providing and promoting services to the aged and disabled. The voters approved a special millage to fund the Council on Aging.

The council consists of the entire geographic area of Arenac County. It is governed by not more than 15 or less than 12 board members. Members serve for up to two consecutive 3-year terms and are elected by a majority of the presiding board. Upon dissolution, all assets shall be distributed for one or more exempt purposes.

Arenac County does levy a tax to provide services to older persons. Revenues from the tax are accounted for in a special revenue fund. An agreement for services to older persons was entered into with the Arenac County Council on Aging.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The county reports the following major governmental funds:

The General Fund is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Ambulance Fund accounts for property taxes used to support the ambulance provider of the county.

The 911 Service Fund accounts for property taxes, surcharges and State wireless surcharges used to support the 911 service provided by the county.

The Revenue Sharing Reserve Fund accounts for advance property tax collections used to replace the state revenue sharing program within the county.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The county reports the following major proprietary funds:

The Delinquent Tax Revolving Fund accounts for the county's annual purchase of delinquent real property taxes from each of the local taxing units within the county and the ultimate collection from the property owners of the delinquent taxes with penalty and interest.

Additionally, the county reports the following fund type:

Agency Funds--These funds account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds that are subject to this same limitation. The county has elected to consistently apply all applicable FASB pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Delinquent Tax Fund and the Jail Commissary Fund are collection fees for delinquent taxes and sales commissions, respectively. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the county's policy to use restricted resources first, then unrestricted resources as they are needed.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not current financial resources.

Inventory--Road Commission (Component Unit)

Inventory, consisting of various operating parts, supplies and road material is stated at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used. Inventories consisting of equipment parts and supplies of \$106,560 and road materials of \$261,050 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

PROPERTY, PLANT AND EQUIPMENT

Capital Assets--Primary Government and Drain Component Unit

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land Improvements	20 to 25 years
Buildings	15 to 50 years
Equipment	3 to 10 years
Vehicles	5 to 10 years

Capital Assets--Road Commission (Component Unit)

Capital assets, which include property, equipment, and infrastructure assets (roads, bridges, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the Arenac County Road Commission as assets with an initial, individual cost of more that \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the Road Commission's fund financial statements and are subsequently capitalized in the government-wide statements through an adjustment to the Road Commission's General Operating Fund.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available fund balance of the Road Commission's General Operating Fund.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets (roads, bridges, traffic signals and similar items) were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets beginning in 2005.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	5 to 30 years
Infrastructure--Bridges	12 to 50 years
Infrastructure--Traffic Signals	15 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Other Financing Sources (Uses)

In the fund financial statements, the transfers of cash between the various county funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case they are carried as assets and liabilities of the advancing or borrowing funds.

Compensated Absences (Vacation and Sick Leave)

It is the county's policy to permit employees to accumulate earned unused sick and vacation pay benefits. A liability for vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, which requires the county board of commissioners to approve budgets for the General Fund and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Budgets are adopted by the county board of commissioners for the General Fund and special revenue funds, except for the County Road Fund, County Economic Development Corporation Fund, and the County Brownfield Redevelopment Authority Fund, whose budgets are adopted and administered by each of their boards. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The General Fund budget is adopted at the activity level and control is exercised at that level. The special revenue funds' budgets are adopted at the functional level and control is exercised at that level. The county board of commissioners has authorized the county treasurer to make General Fund budget transfers between activities when necessary, without increasing the overall budget and with the transfers to be subsequently presented to the board for their review and approval.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE C--MATERIAL VIOLATIONS OF LEGAL PROVISIONS

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The county's actual expenditures for the funds budgeted have been shown on an activity basis for the General Fund and function basis for special revenue funds. The approved budgets of the county were adopted at the activity level for the General Fund and at the function level for special revenue funds.

During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for special revenue funds as follows:

<u>Fund and Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General Government			
Board of Commissioners	\$ 134,150	\$ 169,831	\$ (35,681)
Circuit Court	239,147	247,381	(8,234)
District Court	287,601	290,431	(2,830)
Computer Operations	72,250	74,126	(1,876)
Public Safety			
Jail	589,987	593,068	(3,081)
Other			
Retirement--Employer's Share	240,329	272,601	(32,272)
Ambulance Fund			
Health and Welfare	249,000	303,383	(54,383)
Survey and Remonumentation			
General Government	28,000	36,358	(8,358)
Register of Deeds Automation			
General Government	5,000	6,592	(1,592)
Drug Law Enforcement			
Public Safety	2,000	6,060	(4,060)
Law Library			
General Government	6,500	7,313	(813)
Sheriff Department Donations			
Public Safety	1,560	1,660	(100)
Housing			
Community and Economic Development	198,627	213,489	(14,862)
Revenue Sharing Reserve			
Transfers (Out)	302,186	312,158	(9,972)
Child Care Probate			
Health and Welfare	298,000	317,551	(19,551)

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The county has designated nine financial institutions for deposit of the county funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investment in accordance with the State statutory authority as listed above.

At year end, Arenac County's deposits and investments were reported in the basic financial statements in the following categories:

	Carrying Amounts				
	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Unit
<u>Cash and Deposits</u>					
Cash and Cash Equivalents	\$ 1,746,134	\$ 909,088	\$ 417,955	\$ 3,073,177	\$ 429,309
Investments	<u>617,288</u>	<u>884,703</u>		<u>1,501,991</u>	<u>534,476</u>
Total	<u>\$ 2,363,422</u>	<u>\$ 1,793,791</u>	<u>\$ 417,955</u>	<u>\$ 4,575,168</u>	<u>\$ 963,785</u>

The breakdown between deposits and investments, as follows:

	Primary Government	Component Units
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 3,071,277	\$ 963,485
Investments in Securities, Mutual Funds and Similar Vehicles	1,501,991	
Petty Cash and Cash on Hand	<u>1,900</u>	<u>300</u>
Total	<u>\$ 4,575,168</u>	<u>\$ 963,785</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the county's deposits may not be recovered.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

The county's policy requires the following criteria to lessen the custodial credit risk: all financial institutions holding the county's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the county funds. A bank, savings and loan association or credit union holding county funds must be organized under the law of Michigan or federal law and maintain a principal office or branch office in the State of Michigan. No deposit in any financial organization may be in excess of 25 percent of the net worth of the organization.

At December 31, 2007, the bank balance of the primary government's deposits is \$3,060,113, of which \$300,000 is covered by Federal depository insurance and \$2,760,113 was uncollateralized with securities held by the county's agent in the county's name. The component units' deposits had a bank balance of \$702,835 of which \$100,000 was covered by Federal depository insurance and \$602,835 was uncollateralized with securities held by the county's agent in the county's name.

Types of Investments

Common Cash investments include money markets, government bonds, and US government securities.

Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. The custodial credit risk, the credit risk and the interest rate risk are discussed in the following paragraphs.

Types of Investments--Investments Authorized by the County's Investment Policy

The county's investment policy only authorizes investment in all those that are authorized by law. The county has limited its investments to money markets.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them. The custodial credit risk, the credit risk and the interest rate risk are discussed in the following paragraphs.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the county will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

The counterparty; or

The counterparty's trust department or agent but not in the government's name.

The county does not have an investment policy for managing custodial credit risk. At December 31, 2007, common cash investments were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or another counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the county's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Financial Institution</u>	<u>Investment Type</u>	<u>Rated Debt Investments</u>		
		<u>Fair Value</u>	<u>Credit Rating</u>	<u>Rating Institution</u>
Chase Bank				
(Formerly Bank One)	Governmental Money Market	\$ 31,780	Unrated	
MBIA Class	Money Market Funds	598,729	AAA	Fitch
Comerica	Money Market Funds	432,598	Unrated	
Multi Bank Securities	Long-Term CDs	328,939	Unrated	
American Freedom Funds	Governmental Money Market	109,945	Unrated	
	Total	<u>\$ 1,501,991</u>		

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, generally, the greater the sensitivity of its fair value to changes in market interest rates. The county's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At December 31, 2007, the fair value of the county's investments is listed above with all maturities due within 12 months or less.

NOTE E--PROPERTY TAXES

Taxes Receivable--Current

The county property tax is levied on each December 1st on the taxable valuation of property located in the county as of the preceding December 31st.

Although the county's 2007 ad valorem taxes are levied and collectible on December 1st, it is the county's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of the county operations.

The 2007 State equalized valuation of Arenac County amounted to \$765,876,033 and the taxable valuation is \$532,145,543, on which ad valorem taxes of 4.9176 mills were approved and levied for county operating purposes, .7392 mills for senior citizens programs, .5000 mills for county ambulance service, .9857 mills for the county's road patrol and .7885 mills for E-911 service. The 2007 current tax levy is recognized as property taxes receivable in the respective funds with an offsetting credit to deferred revenue.

Taxes Receivable--Summer Levy

The summer taxes receivable in the General Fund of \$443,573 consists of uncollected real property taxes levied July 1, 2007, due September 30, 2007, but have not been collected at December 31, 2007. Because the revenues that are not considered to be available to liquidate liabilities of the current period, the receivable is offset by deferred revenue.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE E--PROPERTY TAXES (Continued)

Taxes Receivable--Delinquent

The delinquent taxes receivable recorded in the Delinquent Tax Revolving Fund consist of uncollected real property taxes levied prior to 2007. The delinquent real property taxes may be summarized as follows:

2006	\$661,425
2005	73,872
2004	15,055
2003 and Prior	<u>30,718</u>
Total Delinquent Taxes Receivable	<u><u>\$781,070</u></u>

NOTE F--RECEIVABLES

Receivables--Primary Government

The following amounts listed as accounts receivable in the primary government funds have been collected within 60 days after year end and are not offset by deferred revenue:

General Fund (Major Fund)	
Billings	\$ 26,759
911 Service Fund (Major Fund)	
Phone Surcharges	8,492
Nonmajor Governmental Funds	
Housing Commission-Home Loan Bank Contribution	<u>20,000</u>
Total Primary Government Receivables	<u><u>\$ 55,251</u></u>

Receivables--Component Units

The receivables for the component units are presented in the financial statements as follows:

Road Commission

The Road Commission reports accounts receivable of \$32,128 as a sundry receivable for work done for residents and private companies that have not yet been collected.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE F--RECEIVABLES (Continued)

Loans Receivable--Housing Commission Fund (Primary Government)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0 to 3% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue being recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation or rehabilitation of residential buildings. At December 31, 2007, the total outstanding loans were \$1,177,896.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
<u>Primary Government</u>		
Taxes--Current Levy	\$2,014,384	
Long-Term Notes Receivable	<u>1,177,896</u>	<u> </u>
Total Primary Government	<u>3,192,280</u>	<u>\$ -</u>
Special Assessments	699,961	
Due From Village of Twining--Sewer (Note 1)	<u>302,000</u>	<u> </u>
Total Component Unit	<u>1,001,961</u>	<u>-</u>
Total	<u><u>\$4,194,241</u></u>	<u><u>\$ -</u></u>

Note 1--The Village of Twining's February 29, 2005 fiscal year end audit report (the latest audit available) includes the following "going concern" note: Untimely billings for services rendered, insufficient sewer assessments, and an inability to meet debt requirements has created a going concern issue. Management plans to seek additional grants from the State of Michigan to assist in the payment of the debt.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS

The amounts of interfund receivables and payables for the primary government are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds			
General	\$ 2,293	General	\$ 324,072
Revenue Sharing Reserve	<u>324,072</u>	Delinquent Tax Fund	<u>2,293</u>
Total	<u>\$ 326,365</u>		<u>\$ 326,365</u>

The amount of interfund receivables for the primary government and component units are as follows:

<u>Receivable Fund--Primary Government</u>	<u>Amount</u>	<u>Payable Fund--Component Unit</u>	<u>Amount</u>
Due From/To Other Funds			
Delinquent Tax Fund	<u>\$ 5,000</u>	Drain	<u>\$5,000</u>
Total	<u>\$ 5,000</u>		<u>\$5,000</u>

The amounts of interfund receivables and payables for the component units are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Due From/To Other Funds			
Drain Revolving	<u>\$ 19,604</u>	Drain	<u>\$ 19,604</u>
Total	<u>\$ 19,604</u>		<u>\$ 19,604</u>
Total Reporting Entity	<u>\$ 350,069</u>	Total Reporting Entity	<u>\$350,069</u>

All amounts of interfund receivables and payables are to be repaid in the following fiscal year.

The long-term advances to other funds, which represent long-term inter-fund receivables and payables that are not available to finance current operations, are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances To/From Other Funds			
General	<u>\$ 3,000</u>	Non-Major Governmental	<u>\$ 3,000</u>
Total Primary Government	<u>\$ 3,000</u>	Total Primary Government	<u>\$ 3,000</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE G--INTERFUND RECEIVABLES, PAYABLES, ADVANCES AND TRANSFERS (Continued)

Primary Government and Discrete Component Units

	<u>Amount</u>		<u>Amount</u>
Advances To/From Other Funds			
Primary Government		Component Unit	
General	<u>\$ 47,000</u>	Drain Revolving	<u>\$47,000</u>
Total Primary Government	<u>\$ 47,000</u>	Total Component Unit	<u>\$47,000</u>
Total Reporting Entity	<u>\$ 50,000</u>	Total Reporting Entity	<u>\$50,000</u>

The 2007 operating transfers from Exhibits D and F can be summarized as follows for the primary government and component units:

Interfund Transfers

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers (Out)</u>
Primary Government		Primary Government	
General Fund	\$ 533,238	General Fund	\$ 366,605
Non-Major Governmental	466,520	Revenue Sharing Fund	312,158
Delinquent Tax Fund	33,605	Non-Major Governmental	33,605
		Delinquent Tax Fund	306,516
		911 Fund	<u>14,479</u>
Total Primary Government	<u>\$1,033,363</u>		<u>\$1,033,363</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS

Capital asset activity of the primary government for the current year, as follows:

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land	<u>\$1,619,288</u>	<u> </u>	<u> </u>	<u>\$ 1,619,288</u>
Subtotal	<u>1,619,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,619,288</u>
Capital Assets Being Depreciated				
Land Improvements	102,605			102,605
Buildings	3,445,432	5,309		3,450,741
Equipment	313,320	63,829		377,149
Vehicles	<u>351,855</u>	<u>50,218</u>	<u>41,300</u>	<u>360,773</u>
Total	<u>4,213,212</u>	<u>119,356</u>	<u>41,300</u>	<u>4,291,268</u>
Less Accumulated Depreciation				
Land Improvements	19,569	5,051		24,620
Buildings	1,549,366	102,759		1,652,125
Equipment	93,534	40,100		133,634
Vehicles	<u>273,237</u>	<u>36,029</u>	<u>41,300</u>	<u>267,966</u>
Total	<u>1,935,706</u>	<u>183,939</u>	<u>41,300</u>	<u>2,078,345</u>
Net Capital Assets Being Depreciated	<u>2,277,506</u>	<u>(64,583)</u>	<u>183,939</u>	<u>2,212,923</u>
Total Net Capital Assets	<u><u>\$3,896,794</u></u>	<u><u>\$(64,583)</u></u>	<u><u>\$ 183,939</u></u>	<u><u>\$ 3,832,211</u></u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 50,034
Public Safety	97,538
Recreation and Cultural	<u>36,367</u>
Total Depreciation Expense	<u><u>\$183,939</u></u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS (Continued)

Road Commission--Discretely Presented Component Unit

	Account Balances 01/01/07	Additions	Deductions	Account Balances 12/31/07
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 9,200			\$ 9,200
Construction in Progree	75,333	\$ 28,089	\$ 48,000	55,422
Subtotal	84,533	28,089	48,000	64,622
Capital Assets Being Depreciated				
Buildings	380,683			380,683
Road Equipment	3,169,389	28,745	22,682	3,175,452
Shop Equipment	109,811			109,811
Engineers' Equipment	43,447			43,447
Yard and Storage Equipment	137,103			137,103
Office Equipment	103,175	675		103,850
Infrastructure--Roads	4,762,247	2,111,649		6,873,896
Infrastructure--Bridges	530,369			530,369
Total	9,236,224	2,141,069	22,682	11,354,611
Less Accumulated Depreciation				
Buildings	339,766	11,909		351,675
Road Equipment	2,585,117	190,394	22,682	2,752,829
Shop Equipment	98,799	1,076		99,875
Engineers' Equipment	39,757	1,449		41,206
Yard and Storage Equipment	129,509	5,396		134,905
Office Equipment	75,715	3,935		79,650
Infrastructure--Roads	649,701	457,078		1,106,779
Infrastructure--Bridges	40,037	13,616		53,653
Total	3,958,401	684,853	22,682	4,620,572
Net Capital Assets Being Depreciated	5,277,823	1,456,216	-	6,734,039
Total Net Capital Assets	\$ 5,362,356	\$ 1,484,305	\$ 48,000	\$ 6,798,661

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS (Continued)

Drain Commission Discretely Presented Component Unit

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Infrastructure				
1913 Drains	\$ 115,440			\$ 115,440
1933 Drains	1,829,190			1,829,190
1953 Drains	1,692,600			1,692,600
Bodwin Drain	192,167			192,167
Whitney Intercounty Drain		\$440,761		440,761
Subtotal	<u>3,829,397</u>	<u>440,761</u>	<u>\$ -</u>	<u>4,270,158</u>
Less Accumulated Depreciation for				
Infrastructure				
1913 Drains	115,440			115,440
1933 Drains	1,804,786	24,404		1,829,190
1953 Drains	1,178,660	2,562		1,181,222
Bodwin Drain	45,136	22,568		67,704
Whitney Intercounty Drain		5,877		5,877
Subtotal	<u>3,094,503</u>	<u>55,411</u>	<u>-</u>	<u>3,199,433</u>
Net Capital Assets Being Depreciated	<u>734,894</u>	<u>440,761</u>	<u>55,411</u>	<u>1,070,725</u>
Drain Commission--Component Unit				
Total Net Capital Assets	<u>\$ 734,894</u>	<u>\$440,761</u>	<u>\$ 55,411</u>	<u>\$ 1,070,725</u>

NOTE I--LONG-TERM DEBT

The county issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the county. County contractual agreements and installment purchase agreements are also general obligations of the county. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the county is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

ARENAC COUNTY
NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Bond and contractual obligation activity can be summarized, as follows:

<u>Governmental Activities</u>	<u>Balance 01/01/07</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
Arenac County Building Authority Municipal Securities for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000; maturing serially through 2021 with amounts ranging from \$25,000 to \$250,000 at an interest rate ranging from 3.8% to 5.0%.	\$ 515,000	\$ (35,000)	\$ 480,000	\$ 35,000
Municipal lease purchase agreement for the acquisition of park maintenance equipment with a capital cost of \$12,960 beginning June 2004 and ending June 2008 at an interest rate of 7.9%.	5,251	(2,522)	2,729	2,730
Accrued Employee Benefits Payable	<u>167,633</u>	<u>5,110</u>	<u>172,743</u>	
Total Governmental Activities	<u>\$ 687,884</u>	<u>\$ (32,412)</u>	<u>\$ 655,472</u>	<u>\$ 37,730</u>
<u>Drain Commission</u>				
Village of Twining Sanitary Sewer Drain, original bonds dated October 9, 1989, in the amount of \$532,000 at 6% interest for 23 years.	\$ 320,000	\$ (18,000)	\$ 302,000	\$ 18,000
Bodwin Drainage District, original bond dated December 1, 2004, in the amount of \$210,000 at 3.69% interest for 8 years.	180,000	(30,000)	150,000	30,000
Whitney Intercounty Drain, original bond dated June 1, 2007 in the amount of \$387,306 at 6 % interest for 14 years		387,307	387,307	
Total Drain Commission	<u>\$ 500,000</u>	<u>\$ 339,307</u>	<u>\$ 839,307</u>	<u>\$ 48,000</u>
<u>Road Commission</u>				
Accrued Employee Benefits Payable	<u>\$ 46,290</u>	<u>\$ 8,512</u>	<u>\$ 54,802</u>	<u>\$ 2,792</u>
Total Road Commission	<u>\$ 46,290</u>	<u>\$ 8,512</u>	<u>\$ 54,802</u>	<u>\$ 2,792</u>
Total Component Unit Activities	<u>\$ 546,290</u>	<u>\$ 347,819</u>	<u>\$ 894,109</u>	<u>\$ 50,792</u>
Total Reporting Entity Activities	<u>\$ 1,234,175</u>	<u>\$ 315,407</u>	<u>\$ 1,549,581</u>	<u>\$ 88,522</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

The debt service requirements to maturity for the county's debt obligations outstanding at December 31, 2007 are as follows:

Arenac County Building Authority Municipal Securities, dated October 1, 2001, for the acquisition of new park land, construction of new 911 facilities, and construction for additional administration offices for the county jail with a capital cost of \$905,000, maturing serially through 2021 with amounts ranging from 25,000 to 250,000, at an interest rate ranging from 3.8% to 5.0%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2008	\$ 35,000	\$ 21,568	\$ 56,568
2009	35,000	20,176	55,176
2010	35,000	18,733	53,733
2011	35,000	17,236	52,236
2012-2016	175,000	62,163	237,163
2017-2021	<u>165,000</u>	<u>19,625</u>	<u>184,625</u>
	<u>\$480,000</u>	<u>\$159,501</u>	<u>\$ 639,501</u>

Municipal lease purchase agreement for the acquisition of park maintenance equipment with a capital cost of \$12,960 beginning June 2004 and ending June 2008 at an interest rate of 7.9%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2008	<u>\$ 2,729</u>	<u>\$ 224</u>	<u>\$ 2,953</u>
	<u>\$ 2,729</u>	<u>\$ 224</u>	<u>\$ 2,953</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE I--LONG-TERM DEBT (Continued)

Village of Twining Sanitary Sewer Drain--original bond dated October 9, 1989 in the amount of \$532,000 at 6.0% interest for 30 years.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2008	\$ 20,000	\$ 17,520	\$ 37,520
2009	20,000	16,320	36,320
2010	22,000	15,120	37,120
2011	23,000	13,830	36,830
2012-2016	137,000	44,850	181,850
2017-2019	80,000	6,540	86,540
	<u>\$ 302,000</u>	<u>\$ 114,180</u>	<u>\$ 416,180</u>

Bodwin Drainage District, original bond dated December 1, 2004 in the amount of \$210,000 at 3.69% interest for 8 years.

<u>Year</u>	<u>Principal</u>	<u>1-Jun Interest</u>	<u>1-Dec Interest</u>	<u>Annual Total</u>
2008	\$ 30,000	\$ 2,767	\$ 2,768	\$ 35,535
2009	30,000	2,214	2,214	34,428
2010	30,000	1,661	1,660	33,321
2011	30,000	1,107	1,107	32,214
2012	30,000	553	554	31,107
	<u>\$ 150,000</u>	<u>\$ 8,302</u>	<u>\$ 8,303</u>	<u>\$ 166,605</u>

Drain (Component Unit)

Whitney Intercounty Drain, original bond dated June 1, 2007 in the amount of \$1,690,000 in which Arenac County's share equals 22.92 percent or \$387,307 at 6 % interest for 14 years.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2008	\$ 25,209	\$ 17,571	\$ 42,780
2009	25,209	13,980	39,189
2010	25,209	12,972	38,181
2011	25,209	11,963	37,172
2012	25,209	10,955	36,164
2013-2017	129,485	39,442	168,927
2018-2022	131,777	13,175	144,952
	<u>\$ 387,307</u>	<u>\$ 120,058</u>	<u>\$ 507,365</u>

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE J--COMPENSATED ABSENCES

Accrued Vacation and Sick Leave Payable

The county and Road Commission (component unit) have accrued liabilities to their employees for accumulated vacation and vested sick leave benefits as of December 31, 2007, as follows:

	<u>Sick/ Vacation</u>
Vested Employee Benefits Payable--Primary Government	
General Government	
County General Employees	\$ 58,678
District Court	21,152
Circuit Court	19,815
Public Safety	
Sheriff Department Employees	58,244
E-911 Office	<u>14,856</u>
Total Vested Employee Benefits Payable	
Primary Government	172,743
Vested Employee Benefits Payable--Component Unit	
Road Commission Employees	<u>54,802</u>
Total Vested Employee Benefits Payable	
Reporting Entity	<u><u>\$ 227,545</u></u>

The above amounts for the primary government are reported on the Statement of Net Assets as a noncurrent liability in the governmental activities column.

VACATION BENEFIT POLICIES--PRIMARY GOVERNMENT

County General, District Court, Circuit Court, Sheriff Department and E-911 Office Employees

The county's employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Vacation benefits earned are credited to each employee on a bi-weekly basis. The county has established a formal policy regarding a maximum authorized accumulation of vacation hours per individual union agreement.

SICK LEAVE BENEFIT POLICIES--PRIMARY GOVERNMENT

County General, District Court, Circuit Court, Sheriff Department and E-911 Office Employees

The county's employment policies provide for sick leave benefits to be earned in varying amounts depending on the employee's hours worked.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE J--COMPENSATED ABSENCES (Continued)

Compensated Absences--Road Commission Employees

Vacation and sick leave is reported in the Road Commission General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is included in the government-wide statements which encompasses both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

NOTE K--EMPLOYEES' RETIREMENT PLANS

Description of Plan and Plan Assets

Arenac County and the Arenac County Road Commission (component unit) are in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation for sheriff department employees and 2.25% for all other county employees. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy--Primary Government

The obligation to contribute to and maintain the system for county employees was established by negotiation with the county's competitive bargaining units and personnel policy. For 2006, county employees were not required to contribute a percentage of their annual covered payroll, as Arenac County paid 100 percent of the required annual contributions to the pension plan. For 2006, the county had six different groups in the plan: General--Other, Sheriff, Steelworkers Local; District Court--Other, District Court Steelworkers and Elected County Officials with the pension contribution rates at 12.73%, 14.54%, 11.40%, 0%, 7.75% and 23.42% of covered payroll, respectively.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT PLANS (Continued)

Funding Policy--Road Commission

The Road Commission is required to contribute at an actuarially determined rate; the current as a percentage of annual covered payroll are 19.01% for the General unit, 21.51% for the Administrative unit, 54.69% for the Engineer/Manager unit and 6.89% for the Office Manager/Clerk unit. The administration unit of Road Commission employees is required to contribute 1% of their gross income to the plan. All other Road Commission employees are not required to contribute to the plan. The contribution requirements of the Road Commission are established by Act 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission in accordance with negotiated labor agreements.

Annual Pension Cost

For the calendar year ended December 31, 2006, the county's annual pension cost was \$368,875 and the Road Commission's annual pension cost was \$197,919 which was equal to the county and Road Commission's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005. The county employees made no contributions in accordance with the union and personnel agreements. The employer contribution rates have been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)			Percentage of APC Contributed		Net Pension Obligation	
	County		Road				
	Employer	Employee	Employer	County	Road	County	Road
2004	\$ 322,586		\$ 179,624	100%	100%	\$0	\$0
2005	328,684		193,658	100%	100%	\$0	\$0
2006	368,875	\$ 3,939	197,919	100%	100%	\$0	\$0

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE K--EMPLOYEES' RETIREMENT PLANS (Continued)

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
2004						
General	\$ 5,021,181	\$ 7,182,619	\$ 2,161,438	70%	\$ 2,347,853	92%
Road	2,582,806	4,895,630	2,312,824	53%	988,386	234%
2005						
General	5,332,404	7,748,466	2,416,062	69%	2,322,580	104%
Road	2,657,215	4,995,506	2,338,291	53%	954,404	245%
2006						
General	5,711,117	8,485,113	2,773,996	67%	2,437,211	114%
Road	2,748,400	5,152,698	2,404,298	53%	934,508	257%

NOTE L--POST-EMPLOYMENT HEALTH BENEFITS--ROAD COMMISSION

In addition to the pension benefits described in Note K, the Road Commission provides post-retirement health care benefits, in accordance with State statutes, to employees retiring after February 9, 1994. The Road Commission pays the cost of the single subscriber portion of the health insurance monthly premium until retirees qualify for Medicare, provided that the employees retire from all active employment commensurate with their retirement from the Road Commission, the retiree is eligible to receive a pension benefit under the Road Commission's pension plan, the retiree must have had at least ten continuous years of service with the Road Commission at the time of retirement, and finally the employee must be at least 60 years of age at the time of retirement. Such retirees may, at their own expense, include their dependents under coverage of the Road Commission's group health plan by paying the monthly premium cost for such dependent coverage. Currently, 3 retirees meet those eligibility requirements. During the year ended December 31, 2007, expenditures of \$15,255 were recognized for post-retirement health care.

NOTE M--RISK MANAGEMENT

Primary Government

The county is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees.

The county is self-insured for comprehensive liability; motor vehicle physical damage; and comprehensive, property and crime coverage through the Michigan Municipal Risk Management Authority (the Authority). All other types of risk of loss are covered through commercial insurance.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE M--RISK MANAGEMENT (Continued)

All liability claims up to \$75,000 per claim are paid from the net contribution account of the county held by the authority. In addition, after meeting certain deductible requirements, all vehicle claims up to \$15,000 per vehicle, up to \$30,000 per occurrence and property, and crime claims up to \$1,000 per occurrence and 10% of the remaining up to \$100,000 are also paid from the county's contribution account. The authority is responsible for any claims in excess of the above amounts up to a maximum limit of \$10,000,000.

The authority may make additional assessments to its member participants based upon the results of insurance pool operations.

Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

Road Commission (Component Unit)

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, trunkline liability and an umbrella policy. The amount the Road Commission pays annually is determined by the administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expenses incurred per occasion. All other risk is transferred to the pool.

NOTE N--CONTINGENT LIABILITIES

Primary Government

The county, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The county's insurance carrier estimates that the potential claims against the county, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the county.

Road Commission (Component Unit)

The Road Commission has been named as a defendant in various litigation involving pending lawsuits and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. Accordingly, no provision for any loss has been made in the financial statements.

ARENAC COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE N--CONTINGENT LIABILITIES (Continued)

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursements to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

NOTE O--DEFERRED COMPENSATION PLAN

Primary Government

Arenac County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of the Section 457 plan and the assets may not be diverted to any other use. The administrator (PEBSCO) is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the county's financial statements.

NOTE P--FEDERAL AWARDS--ROAD COMMISSION (COMPONENT UNIT)

The Road Commission received \$1,434,565 of Federal assistance that was passed through and administered by the Michigan Department of Transportation. The "pass-through" Federal assistance will be included in the State's single audit procedures and was not considered during the determination of single audit requirements of the Road Commission.

ARENAC COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended December 31, 2007

EXHIBIT K

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Property Taxes	\$ 2,453,756	\$ 2,461,156	\$ 2,385,791	\$ (75,365)
Licenses and Permits	11,250	11,250	7,483	(3,767)
Federal Grants	57,832	57,832	67,097	9,265
State Grants	571,582	546,234	526,730	(19,504)
Contributions From Local Units of Government	82,500	44,123	49,123	5,000
Charges for Services	768,700	769,200	765,568	(3,632)
Fines and Forfeitures	13,000	13,000	12,872	(128)
Interest and Rentals	36,500	36,500	98,648	62,148
Other Revenue	256,122	265,622	273,930	8,308
Total Revenues	4,251,242	4,204,917	4,187,242	(17,675)
Expenditures				
Current				
General Government	2,110,954	2,221,466	2,245,317	(23,851)
Public Safety	1,055,698	905,999	901,090	4,909
Public Works	23,116	23,116	22,416	700
Health and Welfare	320,532	320,822	317,988	2,834
Community and Economic Development	6,075	8,075	7,880	195
Recreation and Culture	-	10,635	10,485	150
Other	957,500	908,521	934,260	(25,739)
Capital Outlay	-	40,800	40,676	124
Total Expenditures	4,473,875	4,439,434	4,480,112	(40,678)
Excess of Revenues Over (Under) Expenditures	(222,633)	(234,517)	(292,870)	(58,353)
Other Financing Sources (Uses)				
Interfund Transfers In--Primary Government	498,238	533,238	533,238	-
Interfund Transfers (Out)	(275,605)	(366,605)	(366,605)	-
Total Other Financing Sources (Uses)	222,633	166,633	166,633	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	(67,884)	(126,237)	(58,353)
Fund Balance--January 1, 2007	-	125,950	201,267	75,317
Fund Balance--December 31, 2007	\$ -	\$ 58,066	\$ 75,030	\$ 16,964

ARENAC COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
AMBULANCE--MAJOR SPECIAL REVENUE FUND
Year Ended December 31, 2007

EXHIBIT L

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 250,000	\$ 250,000	\$ 295,979	\$ 45,979
Total Revenues	250,000	250,000	295,979	45,979
Expenditures				
Current				
Health and Welfare	249,000	249,000	303,383	(54,383)
Total Expenditures	249,000	249,000	303,383	(54,383)
Excess of Revenues Over (Under) Expenditures	1,000	1,000	(7,404)	(8,404)
Fund Balance--January 1, 2007	425,000	425,000	312,905	(112,095)
Fund Balance--December 31, 2007	<u>\$ 426,000</u>	<u>\$ 426,000</u>	<u>\$ 305,501</u>	<u>\$ (120,499)</u>

ARENAC COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
911 SERVICE--MAJOR SPECIAL REVENUE FUND
Year Ended December 31, 2007

EXHIBIT M

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 369,000	\$ 389,700	\$ 390,025	\$ 325
State Grants	93,400	95,312	111,732	16,420
Charges for Services	74,310	76,310	75,539	(771)
Interest and Rentals	1,000	1,000	4,779	3,779
Total Revenues	537,710	562,322	582,075	19,753
Expenditures				
Current				
Public Safety	418,193	474,605	463,403	11,202
Capital Outlay	39,000	289,000	-	289,000
Total Expenditures	457,193	763,605	463,403	300,202
Excess of Revenues Over (Under) Expenditures	80,517	(201,283)	118,672	319,955
Other Financing Sources (Uses)				
Operating Transfers (Out)--Primary Government	(14,479)	(14,479)	(14,479)	-
Total Other Financing Sources (Uses)	(14,479)	(14,479)	(14,479)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	66,038	(215,762)	104,193	319,955
Fund Balance--January 1, 2007	320,000	320,000	452,357	132,357
Fund Balance--December 31, 2007	\$ 386,038	\$ 104,238	\$ 556,550	\$ 452,312

ARENAC COUNTY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
REVENUE SHARING RESERVE--MAJOR SPECIAL REVENUE FUND
Year Ended December 31, 2007

EXHIBIT N

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Taxes	\$ 723,330	\$ 723,330	-	\$ (723,330)
Total Revenues	723,330	723,330	\$ -	(723,330)
Expenditures				
Current				
General Government	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	723,330	723,330	-	(723,330)
Other Financing Sources (Uses)				
Interfund Transfers (Out)	(302,186)	(302,186)	(312,158)	(9,972)
Total Other Financing Sources (Uses)	(302,186)	(302,186)	(312,158)	(9,972)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	421,144	421,144	(312,158)	(733,302)
Fund Balance--January 1, 2007	723,330	723,330	1,448,537	725,207
Fund Balance--December 31, 2007	\$ 1,144,474	\$ 1,144,474	\$ 1,136,379	\$ (8,095)

**ARENAC COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007**

EXHIBIT O

	SPECIAL REVENUE FUNDS							
	Park	Homeland Security	Friend of Court	Circuit Court Counseling	Survey and Remon-umentation	Building Department	Residence Exemption Administration	Register of Deeds Automation
<u>ASSETS</u>								
Cash	\$ 7,336	\$ 2,546	\$ (5,243)	\$ 31,171	\$ 4,223	\$ 11,355	\$ 4,970	\$ 31,978
Receivables								
Taxes								
Delinquent Personal								
Accounts								
Loans								
Due From State of Michigan			806					
Due From Federal Government			40,108					
Total Assets	\$ 7,336	\$ 2,546	\$ 35,671	\$ 31,171	\$ 4,223	\$ 11,355	\$ 4,970	\$ 31,978
<u>LIABILITIES AND FUND BALANCES</u>								
Liabilities								
Accounts Payable	\$ 645		\$ 8,063			\$ 4,187		\$ 2,303
Due to State of Michigan								
Accrued Wages Payable			3,296			976		
Advances From Other Funds								
Primary Government								
Deferred Revenue--Taxes								
Deferred Revenue--Other								
Total Liabilities	645	\$ -	11,359	\$ -	\$ -	5,163	\$ -	2,303
Fund Balances								
Reserved for Special Revenue Programs	5,368	2,546	24,312	31,171	4,223	6,192	4,970	29,675
Designated for Capital Projects	1,323							
Total Fund Balances	6,691	2,546	24,312	31,171	4,223	6,192	4,970	29,675
Total Liabilities and Fund Balances	\$ 7,336	\$ 2,546	\$ 35,671	\$ 31,171	\$ 4,223	\$ 11,355	\$ 4,970	\$ 31,978

ARENAC COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007

EXHIBIT O
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	MCOLES Deputy Training	Correction Officer Training	Drug Law Enforcement	Road Patrol Millage	Law Library	Senior Citizen Millage	Drug and Alcohol	Sheriff Department Donations	Housing Commission
<u>ASSETS</u>									
Cash		\$ 5,239	\$ 1,803	\$ 120,852	\$ 1,229	\$ 3,247	\$ 60	\$ 2,126	\$ 16,465
Receivables									
Taxes				507,838		391,751			
Delinquent Personal				299		221			
Accounts									20,000
Loans									1,177,896
Due From State of Michigan									
Due From Federal Government									
Total Assets	\$ -	\$ 5,239	\$ 1,803	\$ 628,989	\$ 1,229	\$ 395,219	\$ 60	\$ 2,126	\$ 1,214,361
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable				\$ 7,495	\$ 880			\$ 100	\$ 4,662
Due to State of Michigan									
Accrued Wages Payable				10,485					
Advances From Other Funds									
Primary Government									
Deferred Revenue--Taxes				507,838		\$ 391,751			
Deferred Revenue--Other									1,177,896
Total Liabilities	\$ -	\$ -	\$ -	525,818	880	391,751	\$ -	100	1,182,558
Fund Balances									
Reserved for Special Revenue Programs		5,239	1,803	103,171	349	3,468	60	2,026	31,803
Designated for Capital Projects									
Total Fund Balances	-	5,239	1,803	103,171	349	3,468	60	2,026	31,803
Total Liabilities and Fund Balances	\$ -	\$ 5,239	\$ 1,803	\$ 628,989	\$ 1,229	\$ 395,219	\$ 60	\$ 2,126	\$ 1,214,361

**ARENAC COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
December 31, 2007**

**EXHIBIT O
(CONTINUED)**

	SPECIAL REVENUE FUNDS						DEBT SERVICE FUND	CAPITAL PROJECTS FUND	
	Family Court Juvenile	Department of Human Services	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	Animal Welfare	Building Authority Debt	Building Authority Construction	Total
<u>ASSETS</u>									
Cash	\$ (2,788)	\$ 2,795	\$ 122,602	\$ 6,282	\$ (132)	\$ 4,211		-	\$ 372,327
Receivables									
Taxes									899,589
Delinquent Personal									520
Accounts									20,000
Loans									1,177,896
Due From State of Michigan	8,531		3,875		808			-	14,020
Due From Federal Government									40,108
Total Assets	\$ 5,743	\$ 2,795	\$ 126,477	\$ 6,282	\$ 676	\$ 4,211	\$ -	\$ -	\$ 2,524,460
<u>LIABILITIES AND FUND BALANCES</u>									
Liabilities									
Accounts Payable	\$ (73)	\$ 116	\$ 9,214						\$ 37,592
Due to State of Michigan			10,260						10,260
Accrued Wages Payable									14,757
Advances From Other Funds									
Primary Government	3,000								3,000
Deferred Revenue--Taxes									899,589
Deferred Revenue--Other									1,177,896
Total Liabilities	2,927	116	19,474	\$ -	\$ -	\$ -	\$ -	\$ -	2,143,094
Fund Balances									
Reserved for Special Revenue Programs	2,816	2,679	107,003	6,282	676	4,211			380,043
Designated for Capital Projects									1,323
Total Fund Balances	2,816	2,679	107,003	6,282	676	4,211	-	-	381,366
Total Liabilities and Fund Balances	\$ 5,743	\$ 2,795	\$ 126,477	\$ 6,282	\$ 676	\$ 4,211	\$ -	\$ -	\$ 2,524,460

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT P

	SPECIAL REVENUE FUNDS							
	Park	Homeland Security	Friend of Court	Circuit Court Counseling	Survey and Remon-umentation	Building Department	Residence Exemption Administration	Register of Deeds Automation
Revenues								
Taxes							\$ 6,654	
Licenses and Permits				\$ 3,075		\$ 69,797		
Federal Grants		\$ 43,418	\$ 117,972					
State Grants			1,774		\$ 17,797			
Charges for Services	\$ 45,412		23,880			100		\$ 24,065
Fines and Forfeits								
Other								
Total Revenues	45,412	43,418	143,626	3,075	17,797	69,897	6,654	24,065
Expenditures								
Current								
General Government			156,313	800	36,358		129	6,593
Public Safety		15,376				107,733		
Health and Welfare								
Community and Economic Development								
Recreation and Cultural	54,306							
Capital Outlay		25,000					2,654	15,649
Debt Service								
Principal	2,522							
Interest	430							
Total Expenditures	57,258	40,376	156,313	800	36,358	107,733	2,783	22,242
Excess of Revenues Over (Under) Expenditures	(11,846)	3,042	(12,687)	2,275	(18,561)	(37,836)	3,871	1,823
Other Financing Sources (Uses)								
Operating Transfers In--Primary Government	16,000		14,605			26,000		
Operating Transfers (Out)--Primary Government		(1,000)						
Total Other Financing Sources (Uses)	16,000	(1,000)	14,605	-	-	26,000	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	4,154	2,042	1,918	2,275	(18,561)	(11,836)	3,871	1,823
Fund Balance--January 1, 2007	2,537	504	22,394	28,896	22,784	18,028	1,099	27,852
Fund Balance--December 31, 2007	\$ 6,691	\$ 2,546	\$ 24,312	\$ 31,171	\$ 4,223	\$ 6,192	\$ 4,970	\$ 29,675

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS								
	MCOL Deputy Training	Correction Officer Training	Drug Law Enforcement	Road Patrol Millage	Law Library	Senior Citizen Millage	Drug and Alcohol	Sheriff Department Donations	Housing Commission
Revenues									
Taxes				\$ 487,947		\$ 376,649			
Licenses and Permits									
Federal Grants									\$ 95,326
State Grants									12,519
Charges for Services		\$ 6,947							4,242
Fines and Forfeits			\$ 1,871		\$ 2,500				
Other				10,180			\$ 1,310	\$ 2,031	94,862
Total Revenues	\$ -	6,947	1,871	498,127	2,500	376,649	1,310	2,031	206,949
Expenditures									
Current									
General Government					7,313				
Public Safety	3,067	5,515	8,060	406,818			4,817	1,660	
Health and Welfare						378,912			
Community and Economic Development									213,489
Recreation and Cultural									
Capital Outlay			6,048	29,329					
Debt Service									
Principal									
Interest									
Total Expenditures	3,067	5,515	14,108	436,147	7,313	378,912	4,817	1,660	213,489
Excess of Revenues Over (Under) Expenditures	(3,067)	1,432	(12,237)	61,980	(4,813)	(2,263)	(3,507)	371	(6,540)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government					4,000				
Operating Transfers (Out)--Primary Government									
Total Other Financing Sources (Uses)	-	-	-	-	4,000	-	-	-	-
Excess of Revenues and Other Sources Over (Under)									
Expenditures and Other Uses	(3,067)	1,432	(12,237)	61,980	(813)	(2,263)	(3,507)	371	(6,540)
Fund Balance--January 1, 2007	3,067	3,807	14,040	41,191	1,162	5,731	3,567	1,655	38,343
Fund Balance--December 31, 2007	\$ -	\$ 5,239	\$ 1,803	\$ 103,171	\$ 349	\$ 3,468	\$ 60	\$ 2,026	\$ 31,803

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

EXHIBIT P
(CONTINUED)

	SPECIAL REVENUE FUNDS						DEBT SERVICE FUND	CAPITAL PROJECTS FUND	
	Family Court Juvenile	Department of Human Services	Child Care Probate	Soldiers & Sailors Relief	Veterans Trust	Animal Welfare	Building Authority Debt	Building Authority Construction	Total
Revenues									
Taxes									\$ 871,250
Licenses and Permits									72,872
Federal Grants									256,716
State Grants	\$ 13,389		\$ 57,021		\$ 1,566				104,066
Charges for Services									104,646
Fines and Forfeits									4,371
Other			26,625			\$ 1,653			136,661
Total Revenues	13,389	\$ -	83,646	\$ -	1,566	1,653	\$ -	\$ -	1,550,582
Expenditures									
Current									
General Government									207,506
Public Safety						377			553,423
Health and Welfare	12,403	4,607	317,551	3,817	1,552				718,842
Community and Economic Development									213,489
Recreation and Cultural									54,306
Capital Outlay									78,680
Debt Service									
Principal							35,000		37,522
Interest							22,915		23,345
Total Expenditures	12,403	4,607	317,551	3,817	1,552	377	57,915	-	1,887,113
Excess of Revenues Over (Under) Expenditures	986	(4,607)	(233,905)	(3,817)	14	1,276	(57,915)	-	(336,531)
Other Financing Sources (Uses)									
Operating Transfers In--Primary Government		4,000	340,000	4,000			57,915		466,520
Operating Transfers (Out)--Primary Government								(32,605)	(33,605)
Total Other Financing Sources (Uses)	-	4,000	340,000	4,000	-	-	57,915	(32,605)	432,915
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	986	(607)	106,095	183	14	1,276	-	(32,605)	96,384
Fund Balance--January 1, 2007	1,830	3,286	908	6,099	662	2,935	-	32,605	284,982
Fund Balance--December 31, 2007	\$ 2,816	\$ 2,679	\$ 107,003	\$ 6,282	\$ 676	\$ 4,211	\$ -	\$ -	\$ 381,366

ARENAC COUNTY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
DECEMBER 31, 2007

EXHIBIT Q

	BUSINESS-TYPE ACTIVITIES		
	Tax Foreclosure	Jail Commissary	Total
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 187,079	\$ 4,382	\$ 191,461
Total Assets	187,079	4,382	191,461
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	2,356	125	2,481
Total Liabilities	2,356	125	2,481
<u>NET ASSETS</u>			
Unrestricted	184,723	4,257	188,980
Total Net Assets	\$ 184,723	\$ 4,257	\$ 188,980

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT R

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Tax Foreclosure	Jail Commissary	Total
Operating Revenues			
Charges for Services	\$ 134,468	\$ 3,779	\$ 138,247
Total Operating Revenues	134,468	3,779	138,247
Operating Expenses			
Title Search Fees	25,900		25,900
Supplies and Materials	3,074	2,072	5,146
Other Foreclosure Costs	10,295		10,295
Total Operating Expenses	39,269	2,072	41,341
Operating Income (Loss)	95,199	1,707	96,906
Change in Net Assets	95,199	1,707	96,906
Total Net Assets--January 1, 2007	89,524	2,550	92,074
Total Net Assets--December 31, 2007	<u>\$ 184,723</u>	<u>\$ 4,257</u>	<u>\$ 188,980</u>

ARENAC COUNTY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
For the Year Ended December 31, 2007

EXHIBIT S

	<u>BUSINESS-TYPE ACTIVITIES</u>		
	Tax Foreclosure	Jail Commissary	Total
Cash Flows From Operating Activities			
Charges for Services	\$ 134,468	\$ 3,779	\$ 138,247
Goods and Services Purchased	(37,044)	(2,088)	(39,132)
Net Cash Provided by Operating Activities	97,424	1,691	99,115
Net Increase (Decrease) in Cash and Cash Equivalents	97,424	1,691	99,115
Cash and Cash Equivalents--January 1, 2007	89,655	2,691	92,346
Cash and Cash Equivalents--December 31, 2007	<u>\$ 187,079</u>	<u>\$ 4,382</u>	<u>\$ 191,461</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income (Loss)	\$ 95,199	\$ 1,707	\$ 96,906
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Changes in Assets and Liabilities			
Increase (Decrease) in Accounts Payable	2,225	(16)	2,209
Net Cash Provided by Operating Activities	<u>\$ 97,424</u>	<u>\$ 1,691</u>	<u>\$ 99,115</u>

**ARENAC COUNTY
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
December 31, 2007**

EXHIBIT T

	Trust and Agency	District Court Trust	Library (Penal Fines)	Total
<u>ASSETS</u>				
Cash	\$ 320,019	\$ 32,877	\$ 65,059	\$ 417,955
Total Assets	\$ 320,019	\$ 32,877	\$ 65,059	\$ 417,955
<u>LIABILITIES</u>				
Due to State of Michigan	\$ 28,926			\$ 28,926
Undistributed Tax Collections	209,427			209,427
Undistributed Penal Fines			\$ 65,059	65,059
Other Liabilities	81,666	\$ 32,877		114,543
Total Liabilities	\$ 320,019	\$ 32,877	\$ 65,059	\$ 417,955

ARENAC COUNTY
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT U

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Current Property Taxes	\$ 2,419,081	\$ 2,419,081	\$ 2,342,764	\$ (76,317)
Delinquent Real Property Tax	-	4,400	4,236	(164)
Delinquent Personal Property Tax	7,000	10,000	11,258	1,258
Trailer Taxes	1,500	1,500	1,423	(77)
Swamp Lands Tax	26,175	26,175	26,110	(65)
Total Taxes	2,453,756	2,461,156	2,385,791	(75,365)
Licenses and Permits				
Clerk Licenses and Permits	3,000	3,000	1,341	(1,659)
Dog Licenses	7,500	7,500	5,602	(1,898)
Sheriff Licenses and Permits	750	750	540	(210)
Total Licenses and Permits	11,250	11,250	7,483	(3,767)
Federal Grants				
FEMA	6,257	6,257	4,688	(1,569)
Prosecuting Attorney--Cooperative Reimbursement Program	47,000	47,000	60,834	13,834
Marine Safety	4,575	4,575	1,575	(3,000)
Total Federal Grants	57,832	57,832	67,097	9,265
State Grants				
Liquor License Fees	6,000	6,465	6,465	-
Probate Judges' Salary	139,919	139,919	139,919	-
Family Court State Juvenile Supplement	27,317	27,317	27,317	-
Circuit Judges' Supplement	45,724	45,724	45,274	(450)
District Judges' Supplement	45,724	45,724	45,274	(450)
District Court Caseflow Assistance	6,000	6,000	4,559	(1,441)
Court Funding	138,700	108,700	105,777	(2,923)
Crime Victims' Assistance	25,000	25,000	16,183	(8,817)
Secondary Road Patrol Program	55,000	60,250	56,139	(4,111)
Convention Facility Liquor Tax	72,552	71,489	71,489	-
State Cigarette Tax	9,646	9,646	8,334	(1,312)
Total State Grants	571,582	546,234	526,730	(19,504)
Contributions From Local Units of Government				
MSU Extension Citizen Planner Grant\	-	-	1,000	1,000
School Liaison Contract	7,500	14,100	18,100	4,000
City Road Patrol Contract	75,000	30,023	30,023	-
Total Contributions From Local Units of Government	82,500	44,123	49,123	5,000
Charges for Services				
Circuit Court Costs	28,000	23,000	22,116	(884)
District Court Costs	325,000	313,000	301,661	(11,339)
Supplemental Court Costs	-	10,000	9,640	(360)
District Court Civil Fees	28,000	31,000	33,507	2,507
Probate Court Services	25,000	25,000	24,032	(968)
Clerk Court Fees	9,000	8,000	7,555	(445)
Court Ordered Prosecution Fees	12,000	10,000	9,871	(129)
Treasurer Services	4,500	2,500	1,969	(531)
Clerk Services	16,000	13,000	12,366	(634)
Register of Deeds Services	135,000	115,000	109,226	(5,774)

ARENAC COUNTY
STATEMENT OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT U
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Charges for Services (Continued)				
Sheriff Services	2,200	2,200	1,846	(354)
Paper Service Fees	6,000	8,000	8,239	239
Fees for Sheriff Services	2,500	4,500	4,281	(219)
Boat Inspections Fees	3,000	3,000	3,526	526
Fingerprint Services	500	500	385	(115)
ACL Screening	6,000	6,000	5,079	(921)
CSC Fees	100	100	60	(40)
Record Copying	20,000	18,000	17,442	(558)
Out County Inmates Board	15,000	20,700	21,070	370
Inmate Housing Fees	15,000	15,000	19,417	4,417
Inmate Work Release	20,000	21,500	22,641	1,141
Social Security Incentive Jail	1,000	3,000	3,000	-
Diverted Felon Reimbursement	-	2,300	2,349	49
Jail Drug Test Charge	800	800	732	(68)
Jail Telephone Contract	-	-	-	-
Animal Control Services	15,000	26,000	31,337	5,337
Guardian Homemaker Services	35,000	35,000	35,532	532
Sale of County Properties	100	100	266	166
Equalization Department Services	43,000	50,000	54,479	4,479
Miscellaneous Services	1,000	2,000	1,944	(56)
Total Charges for Services	768,700	769,200	765,568	14,925
Fines and Forfeitures				
District Court Fines and Forfeitures	13,000	13,000	12,872	(128)
Total Fines and Forfeitures	13,000	13,000	12,872	(128)
Interest and Rents				
Interest Earned	30,000	30,000	92,148	62,148
Rents	6,500	6,500	6,500	-
Total Interest and Rents	36,500	36,500	98,648	62,148
Other Revenue				
Reimbursements				
Jury Compensation	4,000	2,000	4,885	2,885
Telephone	16,000	11,000	9,721	(1,279)
Circuit Court Wages and Fringe Benefits				
Alcona County	43,052	45,302	49,487	4,185
Iosco County	128,860	135,860	138,879	3,019
Oscoda County	47,209	49,459	48,982	(477)
Insurance	12,000	19,000	19,187	187
Miscellaneous	5,001	3,001	2,789	(212)
Total Other Revenue	256,122	265,622	273,930	8,308
Total Revenues	4,251,242	4,204,917	4,187,242	(17,675)
Other Sources				
Operating Transfers In From (Primary Government)				
Revenue Sharing Reserve	312,158	312,158	312,158	-
Delinquent Tax Revolving	186,080	221,080	221,080	-
Total Other Sources	498,238	533,238	533,238	-
Total Revenue and Other Sources	\$ 4,749,480	\$ 4,738,155	\$ 4,720,480	\$ (17,675)

ARENAC COUNTY
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT V

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Board of Commissioners	\$ 112,100	\$ 134,150	\$ 169,831	\$ (35,681)
Circuit Court--Operating	219,647	239,147	247,381	(8,234)
Circuit Court--Shared 4 Way Costs	229,013	241,355	241,153	202
District Court	281,651	287,601	290,431	(2,830)
Friend of the Court	1,300	2,000	1,905	95
Public Guardian	56,613	59,644	59,336	308
Jury Board	3,700	4,021	4,021	-
Probate Court	176,169	178,119	177,204	915
Adult Probation	1,200	300	85	215
Elections	1,200	4,200	3,854	346
Clerk	139,688	140,738	137,587	3,151
Equalization Department	114,421	144,121	143,492	629
Victims Rights Advocate	20,385	20,385	16,460	3,925
Prosecuting Attorney	99,821	126,086	124,975	1,111
Prosecuting Attorney--Cooperative Reimbursement Program	54,682	54,882	53,166	1,716
Register of Deeds	64,316	64,316	62,035	2,281
Treasurer	98,959	89,959	87,310	2,649
Cooperative Extension Service	79,488	81,288	80,341	947
Building Authority	275	275	275	-
Courthouse and Grounds	197,111	195,111	192,724	2,387
Transportation	1,000	1,000	711	289
Drain Commissioner	46,065	45,065	43,426	1,639
Professional Services	26,950	21,950	21,900	50
Tax Allocation Board	200	200	190	10
Duplication and Postage	13,000	13,000	11,095	1,905
Microfilm	-	303	303	-
Computer Operations	72,000	72,250	74,126	(1,876)
Total General Government	2,110,954	2,221,466	2,245,317	(23,851)
Public Safety				
Sheriff	116,570	113,320	110,193	3,127
Secondary Road Patrol	92,302	59,302	58,270	1,032
Non-Millage Road Patrol	-	850	847	3
City Car--Standish	58,116	22,400	22,400	-
School Liaison Officer	20,945	37,895	37,415	480
Emergency Management	17,625	17,625	16,230	1,395
Marine Safety Program	4,575	2,575	1,999	576
Jail	693,225	589,987	593,068	(3,081)
Animal Control	52,340	62,045	60,668	1,377
Total Public Safety	1,055,698	905,999	901,090	4,909
Public Works				
Department of Public Works	700	700	-	700
Drains-at-Large	22,416	22,416	22,416	-
Total Public Works	23,116	23,116	22,416	700

ARENAC COUNTY
STATEMENT OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2007

EXHIBIT V
(CONTINUED)

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Health and Welfare				
District Health Department	133,044	132,715	132,714	1
Contagious Disease	400	400	49	351
Substance Abuse Agency	36,276	35,745	35,745	-
Medical Examiner	36,000	36,000	33,818	2,182
Community Mental Health Department	104,812	104,812	104,812	-
Veterans Burials	10,000	11,150	10,850	300
Total Health and Welfare	320,532	320,822	317,988	2,834
Community and Economic Development				
Planning Commission	1,175	1,775	1,740	35
Housing Commission	1,500	2,900	2,740	160
Economic Development	3,400	3,400	3,400	-
Total Community and Economic Development	6,075	8,075	7,880	195
Recreation and Culture				
Arenac Heritage Route Authority	-	10,635	10,485	150
Other				
Indirect Cost Study	10,000	11,800	11,789	11
Employee Fringe Benefits--Insurance	300,000	284,000	283,676	324
Retirement	240,000	240,329	272,601	(32,272)
Social Security--County Share	140,000	140,000	137,635	2,365
Tax Appeal Adjustments	5,000	3,600	3,508	92
Insurance and Bonds	227,000	217,000	213,760	3,240
Sick and Vacation Payoff	35,000	11,292	11,291	1
Miscellaneous	500	500	-	500
Total Other	957,500	908,521	934,260	(25,739)
Capital Outlay	-	40,800	40,676	124
Total Capital Outlay	-	40,800	40,676	124
Total Expenditures	4,473,875	4,439,434	4,480,112	(40,678)
Other Uses				
Operating Transfers (Out)--Primary Government				
Friend of the Court	9,605	14,605	14,605	-
Law Library	4,000	4,000	4,000	-
Child Care Probate	250,000	340,000	340,000	-
Social Welfare	4,000	4,000	4,000	-
Soldiers and Sailors Relief	8,000	4,000	4,000	-
Total Operating Transfers (Out)--Primary Government	275,605	366,605	366,605	-
Total Other Uses	275,605	366,605	366,605	-
Total Expenditures and Other Uses	\$ 4,749,480	\$ 4,806,039	\$ 4,846,717	\$ (40,678)

ARENAC COUNTY
COMBINING STATEMENT OF NET ASSETS
DRAIN COMMISSION--COMPONENT UNIT
December 31, 2007

EXHIBIT W

GOVERNMENTAL ACTIVITIES				
	DEBT SERVICE	CAPITAL PROJECTS		
	Twining Village Sewer	Drain	Drain Revolving	Total
<u>ASSETS</u>				
Current Assets				
Cash	\$ 20	\$ 301,430	\$ 27,396	\$ 328,846
Total Current Assets	20	301,430	27,396	328,846
Noncurrent Assets				
Special Assessments Receivable				
Due Within One Year		141,567		141,567
Due in More Than One Year		558,394		558,394
Due From Local Units of Government				
Due Within One Year	20,000			20,000
Due in More Than One Year	282,000			282,000
Capital Assets (Net)				
Assets Being Depreciated		1,070,725		1,070,725
Total Noncurrent Assets	302,000	1,770,686	-	2,072,686
Total Assets	\$ 302,020	\$ 2,072,116	\$ 27,396	\$ 2,401,532
<u>LIABILITIES</u>				
Current Liabilities				
Accounts Payable		\$ 13,217		\$ 13,217
Due to Other Funds--Primary Government		5,000		5,000
Total Current Liabilities	\$ -	18,217	\$ -	18,217
Noncurrent Liabilities				
Long-Term Advances From				
Primary Government--General Fund			47,000	47,000
Bonds Payable				
Due Within One Year	20,000	25,209		45,209
Due in More Than One Year	282,000	362,098		644,098
Notes Payable				
Due Within One Year		30,000		30,000
Due in More Than One Year		120,000		120,000
Total Noncurrent Liabilities	302,000	537,307	47,000	886,307
Total Liabilities	302,000	555,524	47,000	904,524
<u>NET ASSETS</u>				
Invested in Capital Assets--Net of				
Related Debt		533,418		533,418
Reserved for Debt Service	20			20
Restricted for Capital Projects		983,174	(19,604)	963,570
Total Net Assets	\$ 20	\$ 1,516,592	\$ (19,604)	\$ 1,497,008

ARENAC COUNTY
COMBINING BALANCE SHEET
DRAIN COMMISSION--COMPONENT UNIT
December 31, 2007

EXHIBIT X

	GOVERNMENTAL FUNDS			
	DEBT SERVICE FUND	CAPITAL PROJECT FUNDS		
	Twining Village Sewer	Drain	Drain Revolving	Total
<u>ASSETS</u>				
Cash	\$ 20	\$ 301,430	\$ 27,396	\$ 328,846
Special Assessments Receivable		699,961		699,961
Due From Village	302,000			302,000
Due From Other Funds--Component Units			19,604	19,604
Total Assets	\$ 302,020	\$ 1,001,391	\$ 47,000	\$ 1,350,411
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities				
Accounts Payable		\$ 13,217		\$ 13,217
Due to Other Funds--Primary Government		5,000		5,000
Due to Other Funds--Component Units		19,604		19,604
Advances From Other Funds--Primary Government			\$ 47,000	47,000
Deferred Revenue	\$ 302,000	699,961		1,001,961
Total Liabilities	302,000	737,782	47,000	1,086,782
Fund Balance				
Reserved for Debt Service	20			20
Designated for Capital Projects		263,609		263,609
Total Fund Balance	20	263,609	-	263,629
Total Liabilities and Fund Balance	\$ 302,020	\$ 1,001,391	\$ 47,000	\$ 1,350,411
Fund Balance--Total Governmental Funds				\$ 263,629
Amounts reported for governmental activities in the Statement of Net Assets are different because				
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.				1,070,725
The long-term special assessments are not considered "available" in governmental funds, but are considered earned and are recognized as revenue in the Statement of Activities				699,961
Certain receivables, such as due from local units of government, are not due in the current period and, therefore, are not reported in the funds				302,000
Certain liabilities, such as bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds				(839,307)
Total Net Assets				\$ 1,497,008

ARENAC COUNTY
COMBINING STATEMENT OF ACTIVITIES
DRAIN COMMISSION--COMPONENT UNIT
For the Year Ended December 31, 2007

EXHIBIT Y

<u>Functions/Programs</u>	<u>PROGRAM REVENUES</u>				
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
<u>Governmental Activities</u>					
Twining Village Sewer					
Interest on Related Debt	\$ 18,660		\$ 18,660		-
Total Twining Village Sewer	18,660	\$ -	18,660	\$ -	\$ -
Drain					
Public Works	175,463	566,860			391,397
Interest on Related Debt	6,642				(6,642)
Total Drain	182,105	566,860	-	-	384,755
Drain Revolving					
Public Works					
Total Drain Revolving	\$ -	\$ -	\$ -	\$ -	-
Change in Net Assets					384,755
Net Assets--Beginning of Year					<u>1,112,253</u>
Net Assets--End of Year					<u>\$ 1,497,008</u>

ARENAC COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
DRAIN COMMISSION--COMPONENT UNIT
For the Year Ended December 31, 2007

EXHIBIT Z

	GOVERNMENTAL FUNDS			
	DEBT SERVICE	CAPITAL PROJECTS		
	Twining Village Sewer	Drain	Drain Revolving	Total
Revenues				
Contributions From Local Units	\$ 36,660			\$ 36,660
Special Assessments		\$ 211,793		211,793
Total Revenues	36,660	211,793	\$ -	248,453
Expenditures				
Public Works		120,052		120,052
Capital Outlay		440,761		440,761
Debt Service				
Principal	18,000	30,000		48,000
Interest and Fiscal Fees	18,660	6,642		25,302
Total Expenditures	36,660	597,455	-	634,115
Excess of Revenues Over (Under) Expenditures	-	(385,662)	-	(385,662)
Other Financing Sources (Uses)				
Bond Proceeds		387,307		387,307
Total Other Financing Sources (Uses)	-	387,307	-	387,307
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	1,645	-	1,645
Fund Balance--January 1, 2007	20	261,964	-	261,984
Fund Balance--December 31, 2007	\$ 20	\$ 263,609	\$ -	\$ 263,629

Amounts reported for governmental activities in the Statement of Activities are different because:

Net Change in Fund Balances--Total Governmental Funds	\$ 1,645
Village contributions related to principal payments are recorded as revenues in governmental funds, but have already been recorded as revenue in the year the debt was incurred.	(18,000)
Note proceeds are recorded as an other financing source in governmental funds, but note proceeds increase long-term liabilities in the Statement of Net Assets.	(387,307)
Special Assessment Receivables are not recorded as revenue in governmental funds, but are recorded as revenue in the Statement of Activities.	699,961
Special Assessment revenue recorded in governmental funds for prior years are not recognized as revenue in the Statement of Activities.	(344,894)
Principal payments are recorded as expenditures in governmental funds, but principal payments reduce long-term liabilities in the Statement of Net Assets.	48,000
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	440,761
Depreciation is not recorded as an expense in governmental funds, but is recorded as an expense in the Statement of Activities.	(55,411)
Change in Net Assets of Governmental Activities	<u>\$ 384,755</u>



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 7, 2008

Arenac County Board of Commissioners
County of Arenac
120 North Grove Street
Standish, Michigan 48658

RE: Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arenac County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise Arenac County's basic financial statements and have issued our report thereon dated May 7, 2008. Our report was modified to include reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Arenac County Road Commission, as described in our report on Arenac County's financial statements. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Arenac County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arenac County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Arenac County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we (and the other auditors) identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings as items 2005-1 and 2006-1 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arenac County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings as item 2006-1.

This report is intended solely for the information and use of the Arenac County Board of Commissioners, the County's management, and others within the County, Federal, and State awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager, Local Audit and Finance
Division

ARENAC COUNTY
SCHEDULE OF FINDINGS

SIGNIFICANT CONTROL DEFICIENCIES

Board of Commissioners--Capital Assets

Finding 2005-1

Condition: As noted in prior audits, the county does not maintain adequate internal controls for capital assets. A capital asset subsidiary record is not maintained in accordance with generally accepted accounting principles.

Criteria: It is the responsibility of the county to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year are recorded as capital outlay and should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Disposals should equal the reductions to the capital asset records in both governmental and business type funds.

Recommendation: We recommend that the county develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the county should be taken and included in the permanent records of the county and updated annually.
- 2) All assets owned by the county should be permanently labeled in some manner such as permanent individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the county to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the county should keep records on all assets owned by the county which includes the following information:

-Date of Acquisition	-Date of Disposal (when sold or scrapped)
-Tag Number	-Salvage Value (if any)
-Description of Property	-Life of Asset
-Original Cost of Asset	-Depreciation Method of the Asset
-Location of Asset (including department)	-Accumulated Depreciation of the Asset
	-Net Book Value of the Asset
- 4) Capital assets that meet the county's capitalization policy should be included on the capital asset listing.

ARENAC COUNTY

SCHEDULE OF FINDINGS

SIGNIFICANT CONTROL DEFICIENCIES (Continued)

- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets, it will also provide an excellent record for insurance and replacement purposes as well. GASB Statement No. 34 requires capital assets to be included in the financial statements of the county.

STATUTORY NONCOMPLIANCE

Expenditures in Excess of Appropriations

Finding 2006-1

Condition: As noted in the prior audit, our examination of procedures used by the county to adopt and maintain operating budgets for the county's budgetary funds revealed instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The county's 2007 General Appropriations Act (budget) provided for expenditures of the General Fund and special revenue funds to be controlled to the activity level by the county. As detailed below, actual 2007 expenditures exceeded the board's approved budget allocations for several general fund and special revenue fund activities.

ARENAC COUNTY

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE (Continued)

During the fiscal year ended December 31, 2007, expenditures were incurred in excess of amounts appropriated in the amended budgets for the general fund and special revenue funds as follows:

<u>Fund and Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General			
General Government			
Board of Commissioners	\$ 134,150	\$ 169,831	\$ (35,681)
Circuit Court	239,147	247,381	(8,234)
District Court	287,601	290,431	(2,830)
Computer Operations	72,250	74,126	(1,876)
Public Safety			
Jail	589,987	593,068	(3,081)
Other			
Retirement--Employer's Share	240,329	272,601	(32,272)
Ambulance Fund			
Health and Welfare	249,000	303,383	(54,383)
Survey and Remonumentation			
General Government	28,000	36,358	(8,358)
Register of Deeds Automation			
General Government	5,000	6,592	(1,592)
Drug Law Enforcement			
Public Safety	2,000	6,060	(4,060)
Law Library			
General Government	6,500	7,313	(813)
Sheriff Department Donations			
Public Safety	1,560	1,660	(100)
Housing			
Community and Economic Development	198,627	213,489	(14,862)
Revenue Sharing Reserve			
Transfers (Out)	302,186	312,158	(9,972)
Child Care Probate			
Health and Welfare	298,000	317,551	(19,551)

ARENAC COUNTY

SCHEDULE OF FINDINGS

STATUTORY NONCOMPLIANCE (Continued)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968, as amended.

Directive: We direct the county's chief administrative officer and those boards and commissions and administrative personnel responsible for administering the activities of the various funds of the county, develop budgetary control procedures for the general fund and special revenue funds which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof. These procedures should include a requirement that each county department head be responsible for monitoring the budgetary status of his or her activity(ies) monthly. Department heads must also be required to make formal requests to the county treasurer for budget amendments prior to incurring expenditures in excess of board authorized amounts.